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USSR Review

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In this issue:

Soviet Policy in Eastern Europe

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January-February 1986

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USSR Review

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	Since Gorbachev took power, high-level bilateral and multilateral contacts between Soviet and East European leaders have multiplied, accompanied by blunt reminders of Moscow's diminishing tolerance of East European economic problems. Moscow's ability to tie Eastern Europe closer to the USSR economically and to impose more political uniformity remains limited by Soviet resource constraints and the Kremlin's conflicting objectives in the region. Nevertheless, increased Soviet attempts to strengthen Bloc solidarity in the long run will work against US efforts to promote diversity among the East European states through differentiated trade and diplomatic approaches. <div></div>		25X1
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Eastern Europe Looks to Gorbachev

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Four East European countries—Bulgaria, East Germany, Czechoslovakia, and Poland—will hold their party congresses by the end of June, after the Soviet party congress in February. East European leaders are hoping that the Soviet conclave will help clarify what the Gorbachev era will mean for them. So far, the Soviet leader has paid more attention to his allies than his predecessors, raising hopes and fears within Eastern Europe about the direction and extent of changes that could be forced upon them. While the East Europeans have readily echoed Moscow's foreign policy initiatives, they have been less certain—despite Soviet exhortation—about precisely how Moscow expects them to resolve deep-seated domestic problems. In the absence of direct Soviet pressure, they are likely to continue to seek closer ties to the West within the constraints of their limited economic possibilities and to shun major shakeups in their leaderships.

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Soviet-East European Trade Plans for 1986-90

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Plans call for trade between the Soviet Union and Eastern Europe to grow more slowly in the next five years than at any time since the 1960s. Rapid increases in East European exports in recent years have resulted in roughly balanced trade with the USSR, and we expect both the value and volume of these exports to grow much more slowly. Soviet pressure is likely to focus on improving the quality of East European exports and forcing the East European regimes to make tough choices about exporting to the West and supplying domestic needs. Moscow's ability to export to Eastern Europe will be limited by declining oil production and a hard currency squeeze. A key unknown is whether Moscow will meet its commitment to maintain oil deliveries during the next five years. Major cuts in oil exports could well disrupt East European economies and dramatically alter Moscow's economic relations with Eastern Europe.

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Slower Growth in Non-Soviet Warsaw Pact Defense Costs

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Between 1973 and 1983 there was little growth in the defense costs of the non-Soviet Warsaw Pact (NSWP) nations. The main reason for the slower growth in defense costs was a virtual halt in the growth of NSWP procurement. While we cannot account for all the reasons for the East European procurement plateau, the available evidence suggests that policy decisions in response to domestic economic conditions played an important role. The leveling off of NSWP procurement is a serious matter for Moscow because NSWP capabilities are falling behind those of the Soviets in precisely those categories of equipment most critical to Soviet conventional strategy in Europe. Soviet options for improving their allies' capabilities are few and unappealing.

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The Warsaw Pact at 30

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The Warsaw Treaty was renewed in 1985 for another 30 years. Although the Pact has evolved both organizationally and functionally since its founding in 1955, its members were unable to agree on revisions to the text of the treaty that would reflect the new arrangements, and merely reaffirmed the original agreement. Soviet control over the Pact's military structure has been strengthened during the past decade, but this domination has not been duplicated in other spheres of Pact policymaking.

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[Redacted]

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Soviet-Romanian Relations: Problems and Prospects [Redacted]

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Romania's deteriorating domestic situation and the possibility of a contested succession before long offer both a challenge and an opportunity to the USSR. The Soviets apparently hope to stem the drift of recent years that allowed the East Europeans to assert greater independence, and specifically want to bring the uncooperative Romanians back into line. They appear to believe Bucharest's domestic problems could open the door for them to increase their currently meager influence there, particularly after President Ceausescu leaves the scene, and are likely to condition any significant assistance on greater Romanian adherence to Soviet policy lines. Moscow also desires, however, to maintain stability in Romania and avoid being confronted with a choice between intervention and acceptance of an even more hostile Romanian regime. How Moscow manages these concerns could prove a litmus test of the new Kremlin leadership's diplomatic skills and the challenges Moscow poses to Western interests in Eastern Europe. [Redacted]

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Other Topics

[Redacted]

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**The Soviet Construction Materials Industry:
Its Role in Economic Expansion**

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[REDACTED]

[REDACTED] Gorbachev's aggressive program for economic expansion will put great pressure on the industry to modernize what, by world standards, is comprised of a largely obsolescent stock of plant and equipment. It is the first in a series of studies on Soviet civilian industries that focus on their ability to support his modernization program and, in turn, the potential impact of his initiatives on industrial performance. [REDACTED]

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Soviet Oil Production and Exports: Prospects for 1986

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The Soviet plan for 1986 calls for raising oil production to more than 12.3 million b/d, but the production outlook is precarious. At the extreme, export reductions, compounded by anticipated oil price declines, could cost Moscow as much as \$4-6 billion in hard currency earnings. [REDACTED]

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Soviet Policy in Eastern Europe

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Perspective

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New developments in both the USSR and Eastern Europe promise to reshape bilateral and Warsaw Pact relations over the next few years. On the Soviet side, for example, a more decisive and energetic leadership in the Kremlin is committed to modernizing the economy, reducing Soviet subsidies to Eastern Europe, and increasing the region's exports to the USSR. The East Europeans, for their part, are uncertain about how far they will have to go to meet Moscow's minimal demands. Uncertainties in the East European economies and resource constraints probably will make them reluctant to dramatically increase their participation in Soviet resource development projects. The East Europeans' need to purchase Western technology for their own industrial modernization also makes them anxious to keep open the option of expanding economic ties to the West.

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Moscow's perceived security needs, nevertheless, will continue to define the basic dimensions of the relationship:

- The Warsaw Treaty Organization (WTO) provides a mechanism for Soviet command and control over East European forces in wartime and the forward basing of Soviet troops in peacetime.
- The Council for Mutual Economic Assistance (CEMA) gives Moscow leverage to expand intra-Bloc trade and economic cooperation, tying East European industry to Soviet markets and raw materials and providing additional mechanisms for controlling the region.
- East European ties to the West, although troublesome, serve both the Soviets' requirements for Western technology and their "Pan-Europe" campaign.

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The Gorbachev succession occurs at a time when the Soviets face a number of problems in their relations with Eastern Europe. The article "The Warsaw Pact at 30" shows that, although the Pact over the years has grown more complex organizationally and has increased the mechanisms for Soviet control, its members last spring failed to agree on major new institutional arrangements to formalize these changes. In particular, the Soviets and East Europeans were unable to reach a consensus on a permanent political infrastructure that would simultaneously preserve Soviet dominance and increase Eastern Europe's voice in Pact affairs. The essay "Slower Growth in Non-Soviet Warsaw Pact Defense Programs" indicates that the East Europeans have been increasingly prone to deflect more of the Pact's defense burden onto Moscow's shoulders. The East Europeans' share of WTO defense costs slipped from 18 percent in 1970 to 15 percent in 1983, although they contributed 28 percent of the WTO's gross national product in 1984.

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On the political front, the Soviets were forced to rein in independent initiatives toward West Germany by two of their closest allies—East Germany and Bulgaria—in the fall of 1984. Romania, meanwhile, remains as reluctant as ever to follow the Soviet lead on foreign policy.

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Opportunities for Moscow, however, do exist. For example, as the essay "Soviet-Romanian Relations" demonstrates, the Soviets see Romania's deteriorating domestic situation and the possibility of a contested succession as working to their advantage. From a different perspective, the mounting evidence that Gorbachev has initiated radical personnel shifts within the USSR has already raised a host of uncertainties in the minds of long-established East European leaderships. Their unease has made them unusually attentive to what they perceive to be the current Soviet line on ties to the West, as pointed out in "Eastern Europe Looks to Gorbachev."

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Many of the key issues the Gorbachev administration has chosen to highlight in its relations with Eastern Europe—improved economic performance, greater economic integration, more Bloc unity on international matters—are identical to those stressed by his predecessors. Gorbachev, nevertheless, brings a new sense of urgency and vitality to these themes, as shown in "Soviet Policies Toward Eastern Europe." High-level bilateral and multilateral contacts between Soviet and East European leaders, which were allowed to languish since the late Brezhnev era, have been revived. Gorbachev has been unusually blunt and outspoken on economic mismanagement and corruption within the Bloc, even with such stalwart political allies as Bulgaria. Under his guidance, the idea of CEMA science and

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technology (S&T) cooperation has received a new impetus; the closing days of 1985 witnessed the passage of a long-term CEMA S&T program that Gorbachev boasted was not deemed possible by most observers when he took office. []

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To date, Soviet pressures on the East Europeans to toe the line politically and economically have been largely verbal. On occasion, to be sure, Moscow has not hesitated to tighten the screws. For example, the Soviets ordered the Bulgarians to redraft their 1986 economic plan and fire their planning chief, and Sofia complied. Also, in late 1985 the Soviets once again vetoed a visit by East German party chief Honecker to West Germany, in part to signal their displeasure with West German support of the Strategic Defense Initiatives (SDI) and in part to remind East Berlin that it, too, would share the burden of a response to SDI. []

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But the theme essays also highlight the formidable problems Moscow confronts in any attempt to mobilize greater East European support for its political and military goals. The virtual halt in the growth of non-Soviet Warsaw Pact military procurement since 1973 has seriously widened the quality gap between Soviet and East European forces. It has accentuated intra-Bloc differences in capabilities critical to Soviet conventional war strategy, leaving open the possibility that Moscow eventually will have to shoulder an even larger share of the Pact's wartime missions. []

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On the economic front, despite Moscow's advocacy of increased intra-CEMA economic contacts, the series of protocols between the USSR and Eastern Europe signed in late 1985 call for trade to grow more slowly than at any time since the 1960s. Although the Soviets apparently are reconciled to a slower growth in the overall volume of East European exports, they still demand that a larger share be comprised of quality goods to help meet their ambitious plan targets and to repay East European debts to the USSR. []

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Pressuring the Bloc allies to increase exports, however, works against other Soviet goals such as increased East European defense spending. Attempts by Eastern Europe to satisfy Moscow's demands, in the absence of rapid economic growth, would force reductions in standards of living in the region. This, in turn, raises the specter of regional political instability, which Moscow is determined to avoid. A reduction in Soviet hard currency revenues from the West—as a product of falling oil prices and faltering production—could force Moscow to delay or curtail deliveries of oil to Eastern Europe, thereby forestalling closer economic ties from yet another perspective. []

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The East Europeans, meanwhile, anxiously await the Soviet party congress opening on 25 February as a bellwether of Moscow's intentions. Soviet criticism of Eastern Europe's economic performance, which has gone hand in hand with increased bilateral contacts, has already pointed up the possible costs of increased attention from Moscow. The thorniest question for the East Europeans, however, remains the latitude the Soviets will allow for dealings with the West—a matter of particular importance to the East Germans and Hungarians. []

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To date, Moscow's policies toward Eastern Europe have been more restrained than its rhetoric might suggest. The modest targets for CEMA trade in the five-year protocols suggest that the Soviets recognize the inadvisability of squeezing the East Europeans too hard and will be satisfied if trade remains roughly balanced. On the political front, Gorbachev has yet to visibly maneuver to place his men in power in Eastern Europe. In the short run, he probably is content to exploit East European uncertainties as a cheap way of guaranteeing conformity with Soviet wishes. []

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For the longer term, the Soviets will probably step up the pressure to bind Eastern Europe more closely to the USSR's goals—if only because of the growing pressures and constraints on Moscow's own resources. The Soviets might undertake organizational changes in CEMA—such as abandoning the “interested party” rule allowing some to opt out of CEMA projects—to ensure greater cooperation in S&T ventures. Moscow might also agree to suspend its drive for debt repayment from East European trade surpluses in return for a commitment to increased defense spending and procurement. []

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The Soviets will certainly think twice about moving quickly to replace existing East European leaders at the risk of fomenting local political instability. The passage of time, however, will do much of the Soviets' work for them. Moscow will, in the meantime, undoubtedly look at possible successors to push when the transitions occur. These new leaders would be preoccupied with consolidating their own domestic power and hence would hardly be inclined to get out in front of the Soviets on questions of serious interest to the Kremlin. []

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Moscow's apparent decision to limit near-term pressures on the East Europeans to exhortations has left them some room to maneuver. But East European uncertainty over Soviet intentions has already created a more difficult environment for the US policy of differentiated trade and diplomatic approaches to individual East European countries. In the longer run, US policy is likely to run up against increasing Soviet efforts to push CEMA economic integration and to diminish the room that East European states have for maneuvering between the superpowers.

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Soviet Policies Toward Eastern Europe Under Gorbachev

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During the first 10 months of Gorbachev's tenure as General Secretary, the Soviet Union has stepped up pressure for improved East European economic performance and Bloc unity. Gorbachev's new team and his cultivation of an image of resolve have helped the Soviets regain the initiative in their relations with Eastern Europe. His new approach is underscored by messages to Sofia and other capitals that lipservice to Soviet foreign policy positions is no longer enough and by demands for more and better quality exports to the USSR without additional Soviet assistance. Still, Moscow's concern for maintaining political stability in the region, and its recognition of the importance of Eastern Europe's economic ties to the West for the region's future growth, constrain Moscow's ability to lean on its allies.

Soviet Objectives: Eastern Europe Through Soviet Eyes

Soviet policy goals in the region have remained largely constant since the Gorbachev succession. They include:

- Maintaining military and political control over the East European allies in the interest of Soviet national security and upholding Moscow's right to intervene militarily whenever it decides a socialist regime is threatened.
- Ensuring Bloc agreement on the extent and timing of foreign policy initiatives to the West and a recognition that Moscow sets the pace.
- Expanding intra-Bloc economic ties along bilateral lines to increase Soviet control and further Moscow's domestic economic goals.
- Confining East European economic and political experiments to the limits set by the "general laws of socialism" as defined in Moscow.

under Gorbachev the Soviets attach greater weight to certain objectives than they did under his immediate predecessors.

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the General Secretary has said privately that he will not permit weaknesses in East European economies to stand in the way of Soviet economic growth. In May 1985 Gorbachev warned a special conference of Bloc party secretaries for economic affairs that "something is rotten in Denmark," referring to reports of East European economic mismanagement and corruption. Soviet tolerance for economic inefficiency among Moscow's East European allies at Soviet expense appears to be diminishing.

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Bulgaria has long served as Moscow's most loyal ally on political and military issues. But last year the Soviets did not hesitate to take Sofia to task for economic mismanagement and corruption.

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the Soviet leadership in mid-1985 was angered by Bulgarian planners' blithe assumption that increased Soviet energy and raw materials deliveries would be forthcoming in 1986 despite explicit warnings to the contrary. The Soviets probably singled out Sofia—whose economic plight by East European standards was not unusually severe—to make the point that political fealty can no longer compensate for economic shortcomings.

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Such perspectives presage Soviet determination to hold all East Europeans to higher performance standards than previously and a willingness to actively manipulate political or economic levers to generate pressure on Bloc members. These views mirror Gorbachev's determination to root out corruption and mismanagement within the USSR, and they probably will play a more important role in policy toward Eastern Europe as Gorbachev moves to implement his economic agenda at home.

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The Soviets also appear more determined than before to push the Bloc's economic and political unity and to make clear the limits to the diversity they will tolerate. In a major unpublished speech delivered in late summer 1985 to Bloc economic secretaries, Gorbachev reportedly warned against market-oriented mechanisms as a panacea for domestic economic ills and told the participants to pay more attention to the "ship" of socialism than to market "lifesavers" (Seweryn Bialer and Joan Afferica, "The Genesis of Gorbachev's World," *Foreign Affairs*, forthcoming in 1986). []

On the foreign policy front, strengthening the cohesion of the socialist community took on "priority significance" in the draft of the revised CPSU Party Program published in late October 1985 and formed the dominant theme of the section on "Cooperation With the Socialist Countries." The program warns that efforts by the West to take advantage of national differences in economic, historical, and cultural conditions render "firm unity and close solidarity" of "particularly great importance." []

[] the reestablishment of a "conventional" Bloc political structure in Poland ranks high on Moscow's list of priorities, especially the rebuilding of the Communist party and a lowered profile for the Polish military.

For Hungary, [] the Soviets agreed in the second half of 1985 to "tolerate" Budapest's economic reform policies as a "showpiece" for Western consumption, but extracted a commitment from Kadar barring further expansion of the private sector. []

To be sure, similar Soviet perspectives on Eastern Europe appeared under previous Kremlin leaderships. Nevertheless, Moscow's brusque, businesslike tone, its blunt demands for results, and its reaffirmation of a pressing need for Bloc cohesion in the face of alleged Western efforts to divide the socialist community testify to the increased importance the new leadership attaches to these objectives. []

The Gorbachev Team and Its Political Tactics

The new crop of top Soviet party leaders had limited East European experience and contacts before assuming power. In a party career spanning almost two

decades, Gorbachev visited only three countries in Eastern Europe (Czechoslovakia in 1969 and 1979, Hungary in 1983, and Bulgaria in 1984) before becoming party chief. Foreign Minister and Politburo member Shevardnadze traveled to Hungary twice (1975, 1981) and once each to Bulgaria (1974) and Czechoslovakia (1981). Other Gorbachev Politburo appointees had limited responsibilities for Eastern Europe in their previous positions. Overall, there is little in the background of this group to suggest particular empathy with the region's problems. []

Still, the shakeup of Soviet government officials that has been under way for the past year—especially in the economic ministries—has brought to the fore individuals with considerable East European experience (see photos). Gorbachev himself has held four summits with all East European leaders, and by the time of the 1986 Party Congress had conducted bilaterals with each except Romania's Ceausescu.¹

[] Soviet tactics toward Eastern Europe to date have consisted largely of verbal pressure. Still, [] the new leadership has not hesitated to take more substantive steps:

- [] Moscow ordered Sofia to redraft its 1986 plan and replace Bulgarian planning chief Bonev following public and private criticism of Bulgarian economic management by the Soviet Ambassador in the summer of 1985.
- According to [] diplomatic reporting, the Soviets have decided not to allow East German party chief Honecker to visit West Germany in the near future. Although the Soviets have been evasive on this decision, on at least two occasions they have passed on explanations suggesting that West German support for SDI, and East Germany's failure to prevent it, were factors in Moscow's decision.

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***New Soviet Government Officials
With East European Expertise***



N. V. Talyzin . . . Head of Soviet State Planning Committee since October 1985 . . . served as Moscow's Permanent Representative to CEMA, 1980-85 . . . made candidate Politburo member upon his Gosplan appointment, a promotion his predecessor never attained . . . expected to push for CEMA integration . . . as Minister of Communications, 1970-80, extensive experience with defense-related high technology.



K. F. Katushev . . . Since November 1985 head of State Committee for Foreign Economic Relations, body that has dealt chiefly with Soviet aid to Third World . . . since appointment has met with Czechoslovak and Romanian foreign trade ministers to discuss economic cooperation . . . head of Central Committee (CC) Bloc Relations Department, 1968-77.

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B. I. Aristov . . . Soviet Minister of Foreign Trade since October 1985 . . . Ambassador to Poland at height of crisis . . . has firsthand knowledge of East European economic problems and potential impact on political stability and military capabilities of Bloc members.



A. N. Aksenov . . . Appointed head of State Committee for TV and Radio Broadcasting in December 1985 . . . previously Ambassador to Warsaw, 1983-85 . . . full CC member since 1976.

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- [] the Soviets have made it clear to the East Germans that they will bear part of the cost of Bloc efforts to match SDI and that, therefore, East Berlin has an interest in pressing West Germany harder on this issue.

[] Soviet pressure on the East Europeans also takes other forms. Hardline Soviet views on differences within the Bloc received a fresh airing soon after Gorbachev took office. The June 1985 "O. Vladimirov" article in *Pravda*—probably authored by O. B. Rakhmanin, first deputy chief of the Central Committee Bloc Relations Department—served as a harsh reminder to the East Europeans that there are those in the Soviet leadership arguing strongly for a return to Stalinist-style monolithism. Publication of this article in *Pravda* demonstrates that these voices have sufficient political clout to receive an authoritative hearing, despite subsequent Soviet disclaimers that the Vladimirov piece did not represent an official line.

[] In fact, the article probably represented a shrewd opening gambit in a carefully crafted "good cop/bad cop" routine and did not simply reflect policy differences within the Soviet leadership. Gorbachev took the opportunity in his October 1985 Central Committee plenum speech to emphasize that a "dialectic unity" in the "diversity" of the socialist world was a central part of the draft party program. This complex characterization showed Gorbachev as a "good cop" even though the actual document is more ambiguous on the extent of the "diversity" the Soviets actually endorse. []

Such a routine might be designed to make East Europeans grateful to the Soviets for small favors. More specifically, the tactic could be calculated to forestall grumbling over Soviet economic pressure and temporary shortfalls in oil deliveries, such as the ones the Czechoslovaks might possibly face in 1986, []

[] The Soviets, meanwhile, have not yet moved decisively to micromanage East European affairs. Gorbachev has not visibly maneuvered supporters of his policies into positions of power within Eastern Europe. Nor

has he yet made confirmed changes in the Central Committee Bloc Relations Department or made widespread replacements in ambassadors to Eastern Europe. [] once Gorbachev has put his seal on the Soviet leadership at the party congress scheduled for late February, a changing of the old guard within Eastern Europe will be high on his list of priorities. []

Moscow's Economic Policies

Soviet economic policies toward the East European allies reflect the high priority Gorbachev assigns to revitalizing the domestic economy. He values increased trade and economic cooperation with Eastern Europe as an important source of new machinery and technology to supplement the ambitious output and investment targets of the new five-year plan. According to a source of the US Embassy in Prague, during private meetings with Warsaw Treaty Organization party chiefs in Sofia in October 1985 and in Prague in November 1985, Gorbachev spoke forcefully of the need to find ways to make East European economies more efficient and productive. []

On the surface, Gorbachev's objectives for Eastern Europe—for example, eliminating Moscow's trade surplus with these countries and encouraging them to pay off their debt to the USSR—echo earlier themes. The Gorbachev leadership, however, has pursued these aims more aggressively. One indicator is that, despite their domestic economic difficulties, Bulgaria and Czechoslovakia during the first nine months of 1985 reduced their trade deficit with the USSR below 1984 levels, as the Soviets had urged. Hungary also managed to convert its deficit into a moderate surplus. []

The Gorbachev succession has breathed new life into Moscow's longstanding push for economic integration within the Council for Mutual Economic Assistance (CEMA) along lines laid down at the June 1984 CEMA summit:

- [] the May 1985 conference of Bloc party secretaries

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for economic affairs discussed ways to speed up the implementation of decisions taken at the June 1984 summit.

- Soviet press coverage of Gorbachev's trip to Sofia in October 1985 stressed the merits of linking enterprises across national boundaries while largely ignoring integration based on a division of labor within CEMA, an apparent shift in position [redacted]

- Even though the response to Gorbachev's proposed "Eastern Eureka" project at the Sofia WTO summit last summer was lukewarm, Gorbachev pushed ahead to elaborate an even more ambitious proposal for a giant joint-venture firm using Soviet and East European capital. [redacted]

Despite some East European foot-dragging, the extraordinary CEMA council session that convened in Moscow in mid-December 1985 produced a long-term science and technology (S&T) program. According to a reliable source of the US Embassy in Prague, Gorbachev proudly contrasted his ability to convene such a session and win agreement on S&T cooperation with the delays in finalizing such a program under his predecessors. He also boasted that in the spring of 1985 no one in CEMA believed that a consensus by the end of the year would be possible. Soviet influence over the program's drafting is apparent in the call for development of joint enterprises, direct contacts between Soviet S&T complexes and their CEMA counterparts, and joint S&T production associations similar to existing Soviet-Bulgarian machine tool groupings. On the basis of Soviet assessments of export plans for these groupings, we judge that the USSR will be the prime beneficiary of any breakthroughs the CEMA initiative produces. [redacted]

Constraints

Moscow's ability to press the East Europeans hard on closer economic ties and on tailoring their domestic political arrangements to suit the Kremlin's tastes remains limited by cross pressures from other Soviet objectives for the region. The Soviets undoubtedly will think twice about replacing existing East European leaders—despite Gorbachev's evident impatience with

the region's old guard—owing to concern over possible political unrest. Gorbachev stressed the importance Moscow attaches to political stability across its borders at last December's CEMA S&T session, according to a reliable source of the US Embassy in Prague. [redacted]

On the economic front, Moscow's interest in improved East European productivity and more high-quality goods for export to the USSR requires increased rather than diminished East European exposure to the West.² Eastern Europe remains an important channel for bringing Western technology to the USSR. Both considerations at some point will probably limit Moscow's push for CEMA economic integration. Soviet efforts to squeeze much more out of East European economies, without new growth or increased productivity, also would have a negative effect on the standards of living in the region. This, in turn, would raise the prospect of political unrest, which Moscow wishes to avoid. [redacted]

Prospects and Implications

Moscow's failure to date to take decisive action equal to the verbal pressure applied to Eastern Europe—with the exception, perhaps, of the push to finalize the CEMA S&T program—probably reflects a pragmatic assessment of the potential costs involved. The Gorbachev leadership also may rely on current East European uncertainty over the Soviet line in the region—an uncertainty of which Moscow is fully aware—to provide a short-term guarantee of East European compliance with no visible arm twisting. Meanwhile, selective and closely monitored East European dealings with Western Europe continue to serve Moscow's "Pan-Europe" campaign. [redacted]

Over the longer term, and despite limits on Moscow's ability to pressure the East Europeans, the US policy of encouraging a loosening of the Bloc through differentiated trade and diplomatic approaches to East

² See "Soviet-East European Trade Plans for 1986-90," this issue, for evidence that trade between the USSR and Eastern Europe probably will grow more slowly during the next five years than during any time since the 1960s. [redacted]

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European states most likely will come up against increasingly concerted Soviet efforts to strengthen Bloc solidarity. Growing Soviet concern for economic integration, political unity, and improved East European economic performance that benefits Moscow in the short run suggests that Eastern Europe's maneuvering room between East and West will not expand radically and may even diminish. Soviet steps to integrate CEMA economies—especially organizational changes for cooperation in R&D and production to give the integration concept some teeth—almost certainly would slow down or even halt any trends toward diversity among the region's economies. Moscow's call for direct economic ties between CEMA and the European Community, with no guarantees that bilateral links between members of both groupings will be preserved, illustrates one way the Soviets are already pushing to manage East-West dealings more directly.

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Meanwhile, given the ages and/or poor health of most East European leaders, a wholesale turnover is inevitable even without a Soviet push. Any new leaders will initially be absorbed in securing their domestic power bases and may therefore be less interested in carving out room for maneuver on international issues—especially in the face of Soviet opposition—than their predecessors. [REDACTED]

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Eastern Europe Looks to
Gorbachev

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In the year that Gorbachev has been in power, he has altered some of the dynamics of the relationship between the Soviet Union and its East European allies and has raised the prospect among them of more intense Soviet involvement in the management of Bloc affairs. In pressing his case inside the USSR for domestic changes—personnel changes in particular—Gorbachev has raised the hopes of some in Eastern Europe who believe that new leaders and policies are needed for the tough problems facing the region. Many officials, however, are understandably worried by Gorbachev's example and fret over the loss of power and perks that such changes could introduce into their lives.

The perception in Eastern Europe of an invigorated Soviet leadership contrasts with the cynicism and disgruntlement of recent years over the immobility and "irrationality" of Soviet policymaking, in particular on East-West issues. The skepticism and accompanying gallows humor at the expense of the Soviet leadership has, by and large, disappeared.

The East Europeans, nonetheless, are frequently still not clear about what is expected of them or how far they will have to go to meet minimal demands from Moscow. Some expect the guidelines to become clearer at the Soviet party congress in late February, and there has been speculation that this congress could rival the 1956 20th Party Congress in importance. Whatever its outcome, it will affect the ensuing congresses of four other Warsaw Pact parties and will be monitored closely by the Yugoslav party congress planners as well (see table 1).

More Contact

One of the more striking aspects of Soviet-East European relations since March 1985 has been the increased frequency in bilateral as well as multilateral meetings at the most senior levels (see table 2). These meetings, we believe, have been welcomed by the East Europeans who, in recent years, have complained about not being informed of Moscow's views. In some

Table 1
Party Congresses Scheduled in 1986

	Country	Congress
March	Czechoslovakia	17th
April	East Germany	11th
	Bulgaria	13th
June	Poland	10th
	Yugoslavia	13th ^a

^a Hungary held its 13th Congress in March 1985 and Romania its 13th Congress in November 1984. Albania may hold its next congress toward the end of the year.

cases, Moscow's allies were convinced that the Soviets did not have a good grasp of what the USSR's goals were. The briefing in Prague following the Geneva summit, therefore, was an important precedent-setting event that demonstrated Gorbachev's command of the substantive issues discussed in Geneva and his concern for achieving a unified response to the summit from Moscow's allies. His well-articulated policy preferences lessen the possibility of the confused signals that seemed so evident in 1984 over the planned visits to West Germany by the East German and Bulgarian party chiefs Honecker and Zhivkov.

Ceausescu has yet to meet privately with Gorbachev, and, next to him, the Polish party leader Jaruzelski has had the least official exposure. This relative neglect probably reflects dissatisfaction in the Kremlin with these two leaders. Jaruzelski's meeting in April 1985 was not even cast in the jargon of an "official friendly visit."

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Table 2
Summit Meetings

Multilateral	
13 March	Chernenko's funeral in Moscow.
25-26 April	Warsaw Pact summit in Warsaw to renew Warsaw Pact Treaty.
21-23 October	Warsaw Pact Political Consultative Committee (PCC) meeting in Sofia.
21 November	Post-Geneva summit briefing of Warsaw Pact leaders in Prague.
17-18 December	Council for Mutual Economic Assistance (CEMA) premiers in Moscow.
Bilateral	
27 April	Gorbachev met with Jaruzelski in Warsaw following Warsaw Pact summit.
4-5 May	East German leader Honecker met Gorbachev in Moscow.
30-31 May	Czechoslovak leader Husak met Gorbachev in Moscow.
6-8 June	Bulgarian leader Zhivkov met Gorbachev in Moscow.
24-25 September	Hungarian leader Kadar met Gorbachev in Moscow.
23-25 October	Gorbachev met with Zhivkov in Sofia following Political Consultative Committee (PCC) meeting.
21 November	Gorbachev met with Husak prior to briefing of Warsaw Pact leaders.

and the Soviet leader reportedly criticized Ceausescu by name at the Warsaw Pact summit in October 1985.

Some East Europeans may yearn for the days when, in the absence of firm direction from Moscow, they had more of a role in deciding their own affairs. But Gorbachev does appear to be taking their views into account. The US Embassy in Sofia noted, for example, that Bulgaria as well as other states in Eastern Europe managed to get some of their pet viewpoints included in the formal communique from the October Warsaw Pact Political Consultative Committee (PCC) session.

The bilateral meetings have been seen by the East European leaders as bestowing legitimacy on incumbent party secretaries. Gorbachev's private "meeting" in April with Jaruzelski, instead of with the entire Polish leadership, demonstrated to Jaruzelski's opponents that Moscow was not interested in dumping the Polish party leader. The fact that Czechoslovak party leader Husak was the first to pay an "official friendly visit" to Moscow and that Gorbachev then chose Prague as the city for the post-Geneva summit have been taken as signs that the young dynamic leadership in Moscow accepts the stodgy leadership in Prague.

Gorbachev, of course, is well aware of the value of his implied endorsement. Bulgarian and Polish officials apparently were kept dangling on strings up to the last moment about whether Gorbachev would extend his stays at multilateral meetings for bilateral sessions in the respective capitals. In either case, failure to meet personally with the two leaders would have been interpreted domestically as a sign of a lack of confidence and probably would have encouraged domestic political maneuvering.

The Downside

These meetings have also had a downside for the East Europeans, however, because they have served as a vehicle for the Soviet leadership to convey demands and criticism. There is, in fact, a substantial body of reporting to confirm that Gorbachev has been outspokenly critical of the East Europeans. Gorbachev complained to Jaruzelski at their April meeting about the failure of the Poles to contain the radical elements of the Polish underground, called for a strengthening of the Polish United Workers' Party, and suggested a reduction of the military's influence in the state and economic apparatus.

During Husak's visit to Moscow in May, Husak was subjected to some very "combative" complaints about the relatively high standards of living of East European workers and to some hard

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words about the level of Russophobia in Czechoslovakia. The final communique from that visit suggested that Husak was put under pressure to seek more dynamic solutions to Czechoslovakia's economic stagnation. The US Embassy in Sofia noted that Gorbachev's visit in October was more correct than warm, suggesting a reserved attitude by Gorbachev toward Zhivkov. Subsequently, Gorbachev commented that "sharp curves" had not been avoided in the discussions. []

Although Hungarian officials have been upbeat about Kadar's trip to Moscow in September 1985, [] the Hungarian leader agreed to go no further with liberalization of the economy, and, in particular, not to permit further expansion of private enterprise. In addition, [] Gorbachev was openly critical at the PCC session in Sofia of Ceausescu and some other party leaders for their preference for economic ties to the West. []

In general, Gorbachev has been unwilling to give blanket endorsement to any of the party leaders and seems disinclined to display the effusive signs of fraternal support to which the current East European leaders had become accustomed under Brezhnev. []

The Word According to Moscow

The East Europeans have fallen into line relatively quickly behind policy lines set forth by Moscow—partly to impress the new boss that they are team players but also because Gorbachev has yet to make demands on them that they believe would seriously undermine their own interests. Gorbachev has raised to new rhetorical heights the emphasis on the "unity and cohesion" of the alliance, and this has been echoed by the East Europeans. They have loudly proclaimed their support for Soviet foreign policy initiatives. Support for Soviet efforts to derail the Strategic Defense Initiative probably is strengthened by the fact that Gorbachev made it clear to his allies at the November summit in Prague that they will be expected to share in the economic burden if Moscow feels compelled to proceed with major new arms development programs. If Moscow carries out this threat, we would expect to see some of the same

grousing from the East Europeans that followed the Soviet decision to put new missiles in East Germany and Czechoslovakia following Moscow's failure to sidetrack INF deployment. []

Relations With the West

Probably the thorniest foreign policy issue for the East Europeans is how far they can go in establishing relations with the West. For the Hungarians, followed by the East Germans and the Romanians, this is of particular significance. There has been considerable concern that the toughly worded "Vladimirov" article in June was intended to signal a severe tightening of Soviet controls on such contacts. Even though Soviet officials denied that the article represented official policy, the East Europeans remain wary and uncertain and may take only limited comfort in the more moderate statements contained in the draft CPSU Program. []

East German leader Honecker has not rescheduled the visit to West Germany he postponed in September 1984, despite continued intra-German activity on a range of topics. []

[] Gorbachev is playing a more aggressive and energetic role in the policies of East European states, and in particular in relations between the two Germanys. []

[] Prospects for a Honecker visit to West Germany in 1986 seem dim. A senior Soviet-German affairs expert commented to an Embassy officer in mid-December 1985 that, in light of policy "reevaluation," this is not the proper moment for a visit. []

Kadar is seeking to maintain his Western contacts. He has traveled recently to the United Kingdom and Austria. During the latter visit he reasserted his belief that small states have a legitimate role to play, a view that the East German media has occasionally echoed, and that clearly irritates Moscow. The Poles are also vigorously pursuing Western contacts not only in an effort to restore their wounded national pride but as a way of restoring their economy. The East Europeans

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may be hoping that they have a better chance of selling the argument to Gorbachev that political and economic relations with the West can be used to the East's benefit. [redacted]

On Domestic Issues

There is even less clarity among the East Europeans about what Gorbachev expects from them on domestic policies. The Soviet leader has directly and consistently told his allies that changes in economic management practices are necessary if productivity and efficiency are to be increased. [redacted]

[redacted] Gorbachev spoke forcefully about the need to find new and better ways to make Bloc societies more productive. The East Europeans have responded to these general exhortations in various ways. [redacted]

East Germany. The East Germans seem the least affected. They are riding atop probably the best managed and most productive economy in the Bloc and have what is, arguably, the most cohesive party leadership. According to assessments of the US Embassy in Berlin, these strengths have created a cockiness and self-assurance among the East German elite that suggest they believe they have more to teach their colleagues, including the Soviets, than they have to learn. They probably take some pride in positive Soviet references to the East German industrial "combines," which lie at the heart of the country's economic structure. In preparation for his congress, Honecker executed the most extensive personnel changes in recent years, ousting his adamant critic Konrad Naumann. This move further paves the way for Honecker's preferred eventual successor, Egon Krenz. There was no obvious Soviet involvement in this change, and Honecker may have been able to take advantage of the removal from the Soviet leadership of former senior Secretary Romanov, who reportedly was Naumann's protector. [redacted]

Despite the confidence derived from its domestic successes, the East German leadership is well aware of its need to court Soviet good will and continues to be responsive to Soviet economic demands. Over the past several years, East Berlin has increased deliveries

and shifted investment strategies to meet Soviet requirements, apparently without seriously undercutting its economic stability. [redacted]

Bulgaria. The most nervous reactions to Gorbachev's injunctions have come from Prague and Sofia. The Soviets have addressed their sharpest public criticism to Bulgaria, where the Soviet Ambassador chastized the political leadership for economic mismanagement in an article in a Bulgarian journal. His underlings have shown open disdain for Bulgarian failings. According to Embassy reporting, rumors were rampant in the early fall of 1985 about the likelihood of high-level personnel changes prior to the Bulgarian congress. [redacted] a number of senior government officials came to believe that party leader Zhivkov would be removed from office at a Central Committee plenum in January, primarily because he had lost Soviet confidence. Although Zhivkov has conducted some personnel shifts at all levels, it is not likely, barring strong Soviet intervention, that personnel changes will significantly affect the senior party government leadership in the near term. [redacted]

Czechoslovakia. Prague also has been inundated with rumors about personnel changes. A foreign ministry official commented recently to an Embassy officer that Czechoslovaks at all levels are now talking about how important it is that changes take place in the political and economic system. Much speculation has focused on whether Husak might be forced out [redacted]

[redacted] Despite their sharp differences, current Czechoslovak leaders are comfortable in their stalemate, and any sharp break—barring determined Soviet intervention—would have to be considered a long shot. [redacted]

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On domestic economic issues, both Prague and Sofia seem to be engaged in a massive campaign of scapegoating in responding to Soviet pressure for greater efficiency in their respective economies. Both have sought to lay the blame on middle management. Initial indications of a broader debate on reform in Czechoslovakia during the summer of 1985 seem to have fizzled, in part because of the failure of Moscow to present clear alternatives. []

Poland. Polish leader Jaruzelski has apparently succeeded in allaying some of Gorbachev's most pressing concerns about domestic political stability, although little has been accomplished in the economic sphere. Since his brief meeting with Gorbachev in April 1985, the Polish leader has endorsed a markedly tougher policy toward the obstreperous academic community, pursued a more thorough effort to weaken the underground, and continued to thwart the church's efforts to implement a program to aid private agriculture. In resigning as Premier in November as part of a larger restructuring of the government, Jaruzelski appears to have responded to Soviet demands that he devote more time and effort to restoring the party to its former preeminence. []

These moves seem to have met with Moscow's approval. The deputy editor of the Polish party's theoretical monthly recently referred to "friendly winds from the East," []

Jaruzelski's response to Gorbachev's concerns is in marked contrast to his tepid response to similar demands from Chernenko a year earlier. Perhaps Gorbachev made a stronger impression on Jaruzelski, but it also seems that Jaruzelski became persuaded by domestic considerations that a tougher course of action was required. Thus, Gorbachev's concerns fell on more fertile soil. []

The Congresses

With several months to go, there is little evidence that any of the four East European congresses will be a watershed event. Although aging, the four party leaders are in sufficiently good health to continue for the next several years. More important, none of the

current party leaders is faced with an internal opposition that is sufficiently coherent to pose a real threat. Honecker is riding high, and Jaruzelski has shored up his position. Husak's longevity continues to rest on the unwillingness of the leadership as a whole to break the current stalemate. Zhivkov probably is the weakest, but we judge his chances at staying on to be significantly better than even. []

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If there are to be dramatic personnel changes, we judge that a Soviet leadership determined to leave its imprint will have to set the ball rolling. Until he perceives that he is firmly in control himself, Gorbachev probably will exercise caution in taking on the potential troubles that a forced shift in leadership in one of these countries might entail. []

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Prospects

There clearly is a perception in Eastern Europe—probably based more on wishful thinking than on accurate knowledge of Gorbachev's intentions—that the Soviet leader is not ready yet for a big push. []

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This line of reasoning is reinforced by the perception that Gorbachev may not yet be firmly in the saddle. []

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[] the Poles believe serious reservations about Gorbachev's policy directions exist among leaders of the KGB and the Soviet military.

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Gorbachev is young and apparently determined, however, and he may indeed strike out more competently than did his immediate predecessors to force changes in Eastern Europe. Stability in Eastern Europe will

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depend on how hard and on what issues Gorbachev decides to press, as well as the level of sanctions he opts to use in the face of noncompliance. Under the rubric of increased unity and cohesion, the East Europeans will have little difficulty in supporting the general Soviet foreign policy line and will be willing to let the Soviets take the lead on East-West contacts as long as this does not require a sharp curtailment of relations. It is in the areas of Soviet-East European trade relations and Soviet efforts to engineer personnel or structural changes that Gorbachev will have to be particularly careful not to upset the carefully balanced yet fragile East European political systems. In fact, the harder he pushes the more forcefully the East Europeans will counter with arguments that such policies threaten domestic stability and are not in Soviet interests. Thus far, the Poles have had fair success with this line. Gorbachev will learn that he has fewer levers to pull than he has at home to accomplish his goals and that the East Europeans do not lack experience in resisting what they consider to be unreasonable demands.

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Soviet-East European Trade Plans for 1986-90

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Plans call for trade between the Soviet Union and Eastern Europe to grow more slowly in the next five years than at any time since the 1960s. Rapid increases in East European exports in recent years have resulted in roughly balanced trade with the USSR, and we expect both the value and volume of those exports to grow much more slowly. Soviet pressure is likely to focus on improving the quality of East European exports and forcing the East European regimes to make tough choices about exporting to the West and supplying domestic needs. Moscow's ability to export to Eastern Europe will be limited by declining oil production and a hard currency squeeze. A key unknown is whether Moscow will meet its commitment to maintain oil deliveries during the next five years. Major cuts in oil exports could well disrupt East European economies and dramatically alter Moscow's economic relations with Eastern Europe.

Review of Recent Trade Trends

Beginning in the mid-1970s, the USSR permitted its East European partners to run large trade deficits in recognition of their inability to generate enough exports to cover the rising cost of Soviet oil deliveries. The imbalance grew even larger in the early 1980s as the Soviets extended trade assistance to Poland during its economic crisis. In recent years, Moscow has become less willing to support Eastern Europe. In part, Moscow may have become impatient with the East Europeans' inability to close the trade gap. Moreover, the Soviets found themselves having to accept poor-quality East European goods in exchange for Soviet oil and raw materials that were becoming increasingly costly to produce. Moscow's push for more balance narrowed the annual trade deficits from a high of 3.1 billion rubles in 1981 to 1.9 billion rubles in 1984, and may have nearly eliminated them in 1985 for all countries except Poland. Soviet trade data show the region running a 900 million ruble deficit with the USSR through three-quarters of last year. The deficit resulted in large part from Poland's trade gap; Soviet trade with the rest of the region was nearly balanced.

Over the past decade the Soviets enjoyed a sharp improvement in their terms of trade with the East Europeans because energy prices were rising faster than other prices in intra-CEMA trade. In *value* terms, Soviet exports to and imports from Eastern Europe more than doubled from 1978 to 1985. But according to our estimates, the *volume* of Soviet deliveries to Eastern Europe rose by less than 10 percent over the entire period, while real import volumes from the region increased by nearly 50 percent.¹ Thus, even though Moscow's tolerance of East European trade deficits softened the blow from the higher energy prices, the Soviet gains in terms of trade resulted in sharply increased East European exports in exchange for the same quantity of Soviet goods (see figures 1 and 2).

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1986-90 Trade Plans: Slower Growth

Protocols concluded in the final months of 1985 between the USSR and its East European allies on the coordination of national economic plans provide the framework for bilateral trade through 1990.² Over the past decade protocols, while underestimating the value of actual trade because of unexpectedly rapid price increases, have been relatively good indicators of the types and quantities of traded goods.

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The 1986-90 protocols call for trade to total 380 billion rubles over the period. This target implies an average annual growth rate in the value of Soviet-East European trade of only 5 percent—the slowest

¹ Estimates are based on the use of Hungarian ruble price indexes as price deflators of official Soviet foreign trade statistics. Soviet and Polish indexes for prices and trade volumes show similar trends but are not as comprehensive as the Hungarian data.

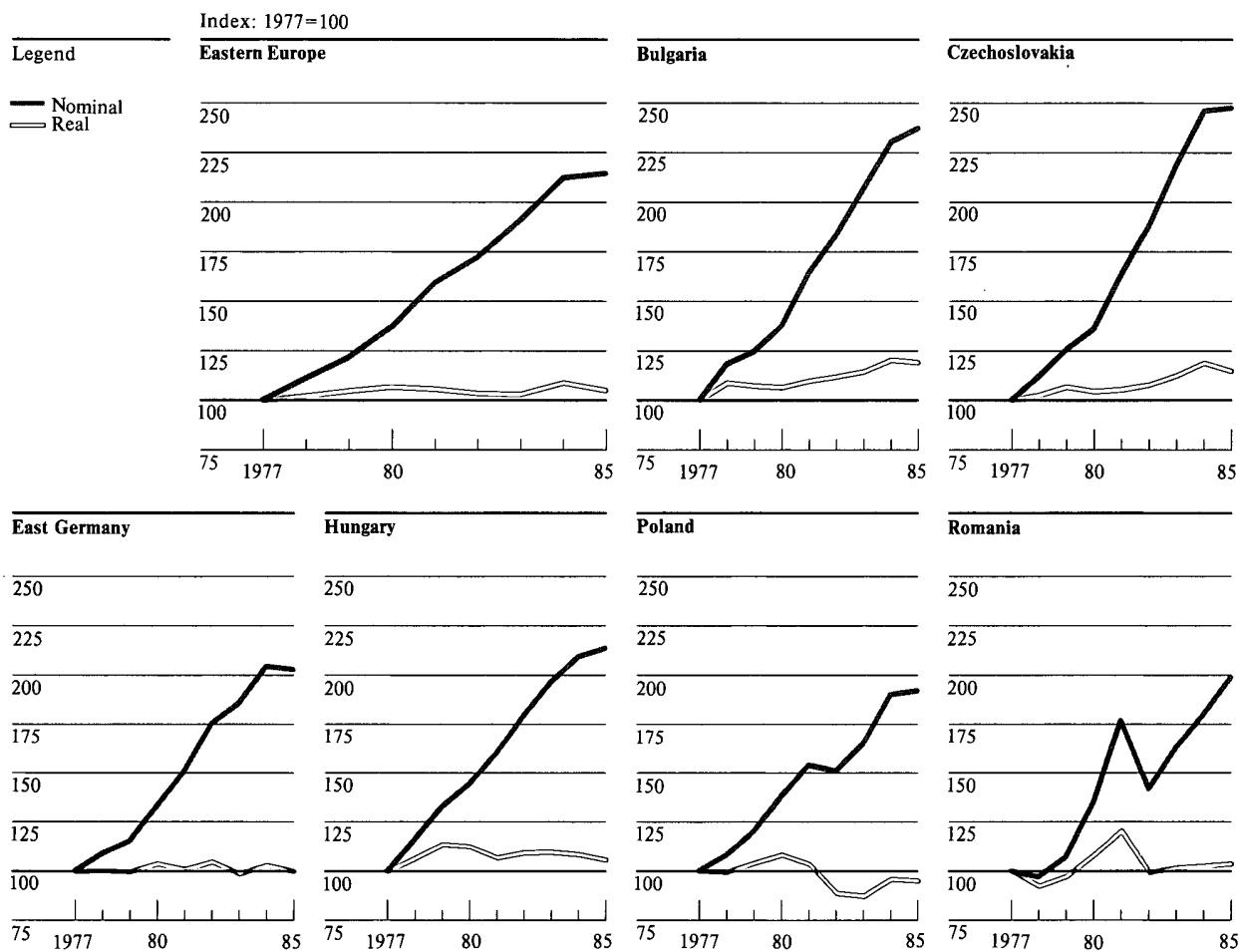
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² Protocols on plan coordination are forerunners of Trade and Payment Agreements, which appear to be more precise and binding. Press reports on the Trade and Payment Agreements signed by the Soviets and the East Europeans provide few additional details, but they appear to be consistent with the plan coordination protocols.

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Figure 1
Index of Soviet Exports to Eastern Europe, 1977-85^a



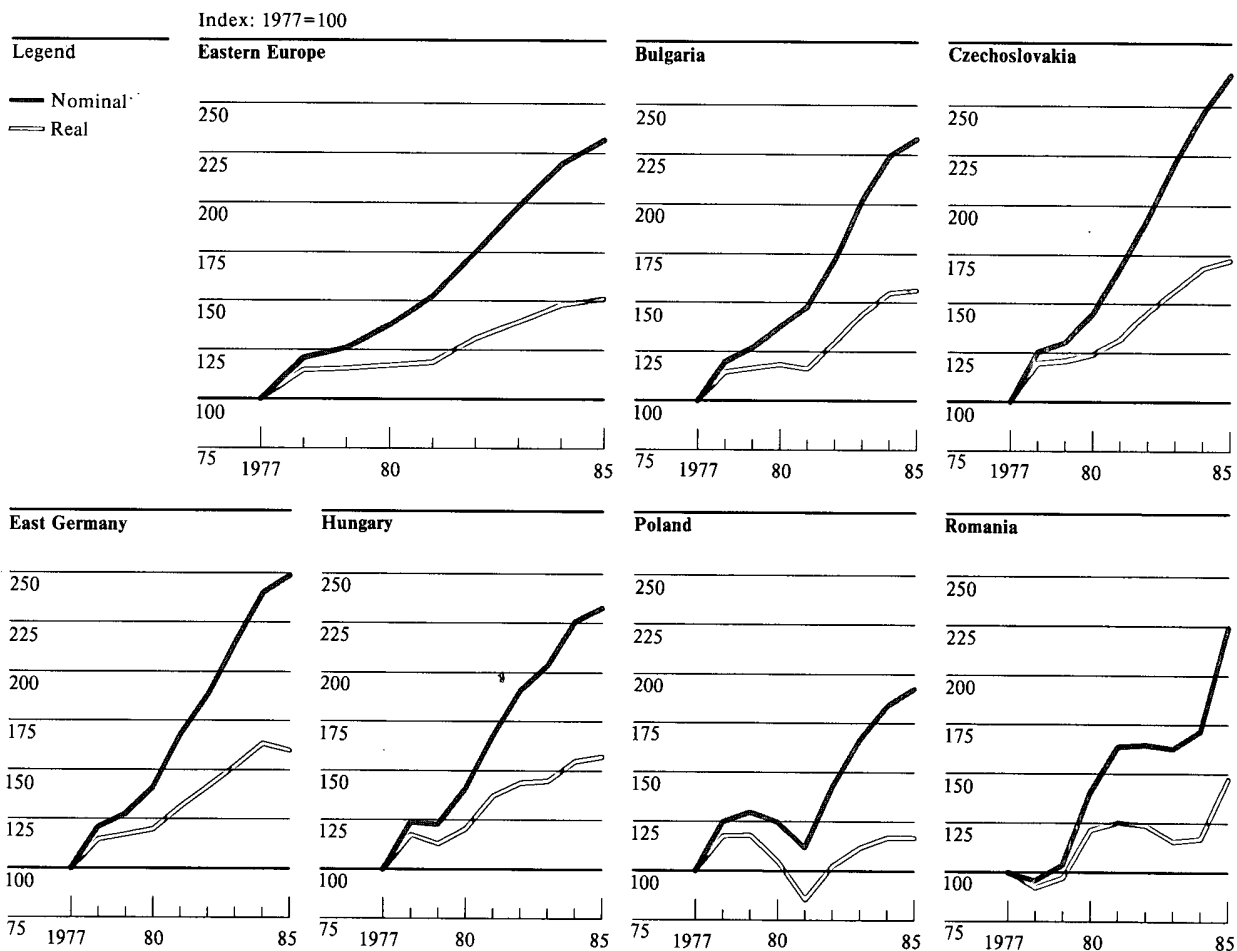
^a Data for 1985 are estimated on the basis of third-quarter Soviet and Hungarian statistics.

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Figure 2
Index of Soviet Imports From Eastern Europe, 1977-85^a



^a Data for 1985 are estimated on the basis of third-quarter Soviet and Hungarian statistics.

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Soviet-East European Trade Plans

	Five-Year Trade Turnover ^a (billion rubles)		Increase ^b (percent) 1986-90/ 1981-85	Average Annual Increase ^c (percent) 1986-90	Date Protocol Signed
	1981-85	1986-90			
Total	280	380	36	5	
Bulgaria	52	70	35	5	20 December 1985
Czechoslovakia	55	73	33	4	29 October 1985
East Germany	66	82	24	3	31 October 1985
Hungary	40	51	28	5	28 November 1985
Poland	50	74	48	8	7 October 1985
Romania	17	30	76	12 to 15	14 December 1985

^a Trade in 1985 estimated on the basis of six-month Soviet trade statistics and annual protocols.

^b These rates, based on CIA estimates, differ somewhat from several East European announcements for turnover growth with the USSR: 28 percent for East Germany; "approximately 40 percent" for Bulgaria; and "more than 30 percent" for Hungary.

^c Calculated using estimates of trade in 1985 as base year.

growth in planned trade in the past 15 years.³ Because a portion of this growth apparently is attributable to price increases, we believe that the rise in the volume of goods traded will be slight. The modest targets in the protocols belie the oft-discussed need to increase trade and cooperation within CEMA, as well as statements by officials in some East European countries who say that trade will be diverted away from the West toward the USSR (see table). []

The plans contrast sharply with the 11-percent annual growth in the value of trade in the 1978-85 period, which resulted from the spiraling costs of Soviet oil and increases in the volume of East European exports to close the trade gap with Moscow. The slowdown in trade projected through 1990 reflects, in part, planners' expectations of slower price increases than in the early 1980s. It also reflects the difficulty Moscow—which benefited from windfall gains on its oil exports

³ The percentages announced compare the value of trade planned for 1986-90 with the value over the entire 1981-85 period. As a result, the announced growth is greater than if it were taken from a base of 1985 trade. We believe 1985 is the proper base from which to project trade. []

in the past—faces in generating the additional exports required for continued growth in Soviet-East European trade. []

Inflation in intra-CEMA trade should be reduced substantially as the stability of Western prices in the past few years becomes incorporated into CEMA prices. According to the CEMA pricing mechanism, which is based on the average of world market prices during the previous five years, Soviet oil prices to Eastern Europe will decrease slightly in 1986 and will fall slowly in following years.⁴ The prices of East European exports—composed primarily of machinery and manufactured goods—are more difficult to predict, but should rise slightly because they are tied to prices of Western machinery. They may also rise as a

⁴ The CEMA Executive Committee announced in January 1985 that the price formula in use since 1976 would be continued for trade in the 1986-90 period. []

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result of the increased costs of producing the quality machinery Moscow demands. With energy prices falling and at least some price increases likely for East European exports, Moscow faces a deterioration in its terms of trade for the next several years. Any effort by the Soviets to overcome this deterioration—by changing the pricing formula in their favor or through item-by-item negotiation—would meet with strong East European resistance. []

Emerging Trade Patterns

The protocols generally omit figures on the key question of how total trade will be divided between Soviet exports to and imports from Eastern Europe, but several factors suggest that East European surpluses are likely, reversing the trade imbalances of the past decade:

- Eastern Europe's base of trade in 1985 was roughly in balance (except for that of Poland), according to our projections based on preliminary trade data.
- Price trends probably will favor East European exports and move against Soviet fuel exports.
- Moscow's oil deliveries will be at best constant and could well decline.
- The Soviet leadership clearly feels that its allies should repay the debt accumulated during the 1970s and early 1980s.
- The protocol for Poland—the country in the weakest position to meet Moscow's demands—calls for trade to be balanced over the next five years, and the Soviets may feel that the other countries could do even better. []

Soviet demands for more East European exports reinforce the indications in the protocols that much of the growth in trade for the rest of the decade will come from Eastern Europe. Eastern Europe conceivably could run surpluses large enough to repay the entire 15 billion rubles owed by increasing exports, in nominal terms, by 7 percent annually and holding import growth to 4 percent. []

Although the protocols imply relatively modest increases in the *quantity* of exports, nearly all of the protocols, as well as other bilateral and CEMA agreements on long-term science and technology cooperation, emphasize that the East Europeans must improve the *quality* of their exports. Meeting Soviet demands, in turn, may cut into their ability to earn foreign exchange—their best goods are normally sold in hard currency markets—and satisfy domestic needs. Implied Soviet threats to cut energy and raw material deliveries if the requisite quantity and quality of goods are not forthcoming from Eastern Europe are a potent lever in ensuring compliance. Moscow's demands for better machinery, food, and other consumer goods, however, will be tempered by Eastern Europe's ability to maintain domestic economic growth and remain financially solvent in dealings with the West. Moreover, Moscow may still be willing to grant concessions if an East European country's economic problems become serious enough to warrant them. []

We expect the major constraint on trade in 1986-90 to be Moscow's inability to boost exports to Eastern Europe. Little growth can be expected in deliveries of oil and other fuels—the mainstay of the USSR's exports. Moscow will maintain oil deliveries at 1985 levels of about 70 million tons, according to statements by Soviet and East European officials. While the Soviets stand ready to increase oil deliveries to Romania, and possibly other countries, in exchange for dollars or for goods that could be sold for dollars, the East Europeans probably cannot afford major purchases on these terms. []

Gas deliveries will not grow substantially until 1989 when the Yamburg pipeline comes on line. All countries will invest machinery, equipment, or manpower in this project in exchange for a share of 20-22 billion cubic meters of gas annually over 20 years. East European participation in other joint projects, such as the Krivoy Rog iron ore complex, probably will lead to only moderate increases in some raw material deliveries. []

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Agreements by Country

While the protocols have in common generally level Soviet supplies of raw materials and continuing pressure on Eastern Europe to deliver more and better goods to the USSR, there are important differences among the agreements signed with each country (see inset). The highest rates of growth in trade are projected for those countries with economies in the most trouble—Romania and Poland. East Germany and Czechoslovakia are in much stronger economic positions, but their protocols call for much more modest trade growth. Yet these countries will probably face the strongest demands to improve the quality of their exports. []

The agreement to increase *Romania's* trade with the USSR by over 70 percent—the highest rate in Eastern Europe—reflects Bucharest's desperate efforts to secure aid for its ailing economy. Bilateral trade, however, will be limited by Romania's ability to meet export commitments. Imports of Soviet crude oil increased in 1985 to about 2 million tons, but for the second year in a row Romania received little more than half of the oil it had contracted for because of its inability to provide the meat, other foodstuffs, and industrial machinery demanded by Moscow. []

Poland seeks to regain the place of second-largest Soviet trading partner among CEMA countries, which it lost after Warsaw's inability to meet export commitments in 1980-81 led to a decline in trade.⁵ [] the 1986-90 period will focus on the development of both economies—in contrast to 1983-85, when the Soviets extended substantial economic assistance to help Warsaw recover from its economic crisis. While Moscow will allow Warsaw to run trade deficits through 1987, the protocol calls for Poland to run surpluses in 1989 and 1990 large enough to balance trade for the five-year period as a whole. Repayment of 5 billion rubles owed to the Soviets will be deferred until after 1990. []

[] Moscow's negotiations on 1986-90 trade with *East Germany*—its largest trading partner—were difficult and long delayed

⁵ Poland's economic situation was so unsettled in 1980-81 that Warsaw and Moscow did not even conclude a trade agreement for 1981-85. []

because of Soviet threats to reduce deliveries of some raw materials and Soviet demands for large East German investment in Soviet resource projects. Perhaps to gain leverage in holding Moscow to its commitments, the East German announcement of the protocol prominently specified planned amounts of several fuel and raw material imports from the USSR. []

Czechoslovakia will contribute equipment and 12,000 workers for the construction of the Yamburg gas pipeline and a gas treatment plant in the USSR in exchange for 5 billion cubic meters of gas annually over 20 years. Czechoslovak officials have said publicly that Soviet oil and raw material deliveries will continue at 1985 levels through the next five years, but, [] Czechoslovak officials expect annual crude oil deliveries to be cut by at least 1.4 million tons by 1990 even if Prague invests in Soviet projects. []

[] *Hungary* has convinced Moscow to continue purchasing its meat surplus for hard currency by arguing that the planned elimination of such transactions by the Soviets would threaten Hungary's fragile hard currency position. []

Bulgaria's relationship with Moscow over the past year has been strained. Soviet displeasure over Bulgaria's economic policies and the Slavization campaign against the Turkish minority in the country probably is the major reason Moscow cut back on crude oil deliveries to Bulgaria last year. []

Oil: The Key Unknown

Although we believe that the trade plans announced in the protocols—often the products of tough negotiations—genuinely reflect intentions, future events and developments could force the plans to be modified or, more likely, could cause results to diverge from goals. The largest uncertainties are in Soviet oil exports. Although Moscow for the most part has so far insulated Eastern Europe from cuts in oil exports, it

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Protocol Highlights

	Soviet Exports	East European Exports
Bulgaria	<i>Machinery and equipment for reconstruction of metallurgical, chemical, machine-building industries. Continuation of energy deliveries at 1985 levels.</i>	<i>Increases in machine-building, electronic, electrical-engineering products. More consumer goods, fruits, vegetables.</i>
Czechoslovakia	<i>50-percent increase in machinery. Equipment for power, metallurgical, chemical industries and for Prague subway. Maintenance of oil and raw materials at 1985 levels.</i>	<i>"Substantial" increase in consumer goods. Equipment and 12,000 workers for construction of Yamburg pipeline and gas treatment plant at Karachaganak.</i>
East Germany	<i>Annual deliveries of 17.1 million tons of oil, 6.9 billion cubic meters of gas, 4.5 million tons of coal, 1.7 million tons of iron ore, 3.2 million tons of rolled steel.</i>	<i>40-percent increase in consumer goods and 50 percent in chemicals. Doubling of electrical engineering and computer-related products.</i>
Hungary	<i>15-percent increase in gas this year, probably in exchange for food and agricultural products. Additional 2 billion cubic meters of gas from Yamburg beginning in 1989.</i>	<i>Increase in oil and gas equipment. Equipment for reconstruction of Soviet chemical, agricultural machinery, light industries.</i>
Poland	<i>Maintenance of oil deliveries at 15 million tons annually. Additional 1 billion cubic meters of gas this year through Kobrin-Brest pipeline, plus another 5 billion cubic meters from Yamburg beginning in 1989.</i>	<i>"Large" deliveries of ships, heavy machinery, lathes, electric motors, textile and chemical industry equipment, roadbuilding and agricultural machinery. Increases in food and agricultural products.</i>
Romania	<i>2-3 million tons of oil annually. Increases in gas and iron ore.</i>	<i>Doubling of machinery deliveries to 6.5 billion rubles. 1-1.5 billion rubles in ships, equipment for oil drilling and exploration. 500 million rubles in agricultural machinery. Metallurgical equipment worth 1 billion rubles. Increase in consumer goods and chemicals.</i>

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may find it increasingly difficult to do so if oil production and prices continue to fall. With hard currency shortages of its own, Eastern Europe would be hard pressed to replace any Soviet deliveries diverted to the West. The region already faces tight energy supplies as evidenced by severe shortages in several countries during the past year. Even modest cuts in oil deliveries could seriously undermine the economic performance of several countries.

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Moreover, if Moscow chose to make the cuts large and abrupt, it would risk the entire structure of its economic relationship with Eastern Europe. The USSR has little to offer besides oil, especially in the short run, and the East Europeans would be forced to divert their trade to the West or to the Middle East to obtain oil.

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Slower Growth in Non-Soviet Warsaw Pact Defense Costs []

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Between 1973 and 1983 there was little growth in the defense costs of the non-Soviet Warsaw Pact (NSWP) nations when measured in dollars. In particular, the dollar costs of military procurement were almost unchanged over the period—a significant change from the growth of the early 1970s. While we cannot account for all the reasons for the procurement plateau, the available evidence suggests that policy decisions in response to domestic economic conditions held down procurement in two East European countries and that economic factors may well have played an important role in the region as a whole. []

The lower priority accorded defense spending by the East Europeans than by the Soviets and the leveling off of NSWP procurement are serious matters for Moscow. [] Most disturbing to the Soviets is the fact that NSWP capabilities are falling behind those of the Soviets in precisely those categories of equipment most critical to Soviet conventional strategy in Europe—self-propelled artillery, modern tanks, tactical aircraft, and surface-to-air missiles. Unless Moscow is willing to assume a much larger responsibility for NSWP modernization, the Soviets may have to take on a greater share of the Pact's wartime missions. []

Background

In 1949, with the postwar Communist regimes firmly entrenched in Eastern Europe, Stalin moved to rehabilitate and expand their military forces to add their military potential to that of the Soviet forces opposing NATO and to tie the satellite armies to the Soviet system of control in Eastern Europe. Beginning in 1960, Khrushchev began to stress closer military integration with Eastern Europe. Joint exercises, organizational changes, and a major arms modernization program lasting through the early 1970s substantially upgraded NSWP capabilities for theater operations with the delivery of T-55 tanks, MIG-21 aircraft, and surface-to-air missiles—provided at least initially on concessionary terms. []

In this article we track NSWP military spending since 1970 in constant 1983 dollars. Although dollar costs

Measuring Resources for Defense

To determine the impact of defense spending on a country's economy, we need a measure in that country's own currency. An indigenous currency measure also indicates the domestic perception of the cost of defense activities and of the cost trade-offs made by national leaders. Unfortunately, reliable NSWP defense spending data in domestic currencies do not exist. Even if they did, they could not answer other questions: the comparative resource levels and trends across Warsaw Pact countries or the relative importance of each member to the alliance total. Moreover, there are no reliable measures of defense inflation in NSWP countries, so we could not adjust for the effects of inflation. []

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To make defense cost comparisons, we use dollar costs to provide a common resource index, even though dollars do not reflect actual spending. Dollar costs permit comparative sizing across countries, show cost trends over time, and can be adjusted for inflation. Since dollar costs are based on US prices, growth rates measured in dollars will be different from growth rates measured in domestic currencies. However, since all defense activities carry some cost regardless of currency, dollar costs do indicate the presence (or absence) of growth in domestic spending. Otherwise, dollar costs do not indicate the domestic perception of defense activities or their economic impact. []

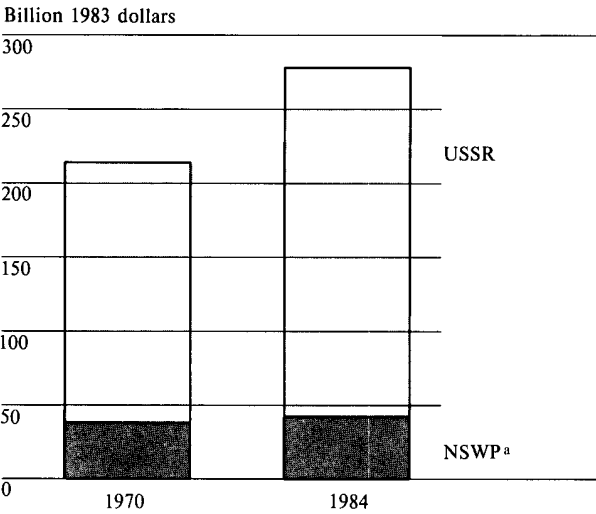
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do not measure actual defense spending, they reflect general trends over time in the flow of resources devoted to defense. Because they reflect annual inputs of manpower, equipment, construction activity, and the like, costs should not be used as a measure of the overall military potential of Warsaw Pact forces (see inset). []

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Figure 1
Dollar Costs of Warsaw Pact
Defense Activities, 1970 and 1984



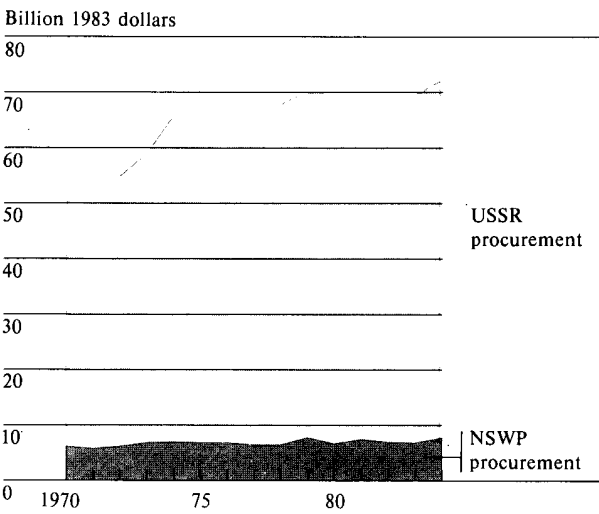
^a NSWP costs exclude RDT&E because of a lack of information. Such costs may be significant in Poland, Romania, and Czechoslovakia, which have well-developed defense industries, but are unlikely to reach the 12-percent share of Soviet defense costs represented by RDT&E from 1970-84. Soviet RDT&E was \$18 billion in 1970 and \$33 billion in 1984.

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Costs of Pact Defense Programs

Total. We estimate the total cost of Warsaw Pact defense activities in 1984 at \$278 billion, of which \$42 billion, or one-seventh, represented the NSWP contribution (see figure 1).¹ In the 1971-84 period, total Pact costs rose at an average annual rate of 1.9 percent. Soviet costs, however, grew more than two and a half times faster than NSWP costs (2.1 percent versus 0.8 percent a year), reflecting both much greater force expansion and more rapid modernization (see table). Consequently, the share of NSWP costs in the Pact total fell from 18 percent in 1970 to 15 percent in 1984.

Figure 2
Dollar Costs of Warsaw Pact
Defense Procurement, 1970-84



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NSWP. The relative size of each NSWP nation's defense activities is shown in the table. Polish defense costs are the highest, reflecting the larger Polish force levels. East Germany's and Czechoslovakia's costs are next in size and almost equal. Together, the three northern tier countries account for two-thirds of NSWP costs.

Beginning in the early 1970s, the already modest rates of increase in NSWP defense costs fell off dramatically. Excluding the 1984 procurement surge in Czechoslovakia and Romania, only East Germany averaged more than 1-percent annual growth during the entire period, and no country showed any acceleration. Growth in the costs of defense in Poland, Hungary, and Bulgaria—which account for almost half of the NSWP total—was negligible. Because of the slow growth in these costs, each country's share of total NSWP costs has changed little since 1970.

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Growth in Total Defense Costs by Country and Share of NSWP Total

	Total Costs in 1984 ^a		Average Annual Growth in Defense Costs (percent)	
	Billion 1983 US \$	Share of NSWP Total (percent)	1971-75	1976-84
Poland	12.1	29	0.3	-0.1
East Germany	7.8	19	1.5	1.1
Czechoslovakia	7.9	19	2.0	1.4 ^b
Romania	6.8	16	1.4	1.3 ^b
Bulgaria	4.4	10	0.5	0.3
Hungary	2.9	7	-0.3	0.1
Total NSWP	42.0	100	1.0	0.7 ^b
USSR	236.1		3.4	1.5

^a NSWP costs exclude RDT&E.

^b A major surge in Romanian and Czechoslovak procurement in 1984, almost certainly a one-time event, affects average growth. Average annual growth in 1976-83 is 0.7 percent for Czechoslovakia, 0.6 percent for Romania, and 0.5 percent for the NSWP countries as a whole.

The main reason for the slower growth in NSWP defense costs after the early 1970s was the virtual halt in the growth of procurement. In the 1971-75 period, NSWP procurement grew at an average annual rate of 2.5 percent—a rate comparable to that of the middle and late 1960s. By 1975, annual procurement had leveled off at about \$7 billion, where it has remained (see figure 2). Even so, a considerable degree of modernization took place (see inset).

A second reason for the slower growth in NSWP defense costs has been slower growth in operations and maintenance (O&M) costs. Through 1975, Warsaw Pact O&M costs rose at an average annual rate of 3 percent; after 1975, at less than 2 percent. This deceleration primarily reflects the trend in Soviet procurement; with the weapons inventory increasing less rapidly, the cost of maintaining it also grows more slowly. But an accumulation of evidence indicates that the other Warsaw Pact countries have also cut equipment operating rates as a cost-saving measure, although this is not reflected in our current estimates:

- The continuing expansion of ground forces equipment without manpower increases suggests that average usage rates are probably declining. During the period 1970-84, NSWP manpower stayed about the same despite growing inventories of troop carriers, tube artillery, and multiple rocket launchers. Soviet equipment deployment also greatly outpaced manpower growth.

- [redacted] in the late 1970s, Hungary, Czechoslovakia, and Romania began adopting stringent fuel conservation measures.

- [redacted] in 1983 the Defense Ministry reduced participation in annual divisional field exercises to one-sixth the previous level to conserve fuel and ammunition.

Economic Influences on NSWP Defense Activities
Defense and the Economy. The lack of growth in NSWP procurement represents a significant change from the growth of the 1960s and early 1970s. We

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Modernization in NSWP

Even with little or no growth in procurement costs, the NSWP countries have made notable progress in modernization since 1970. They have:

- *Increased the number of armored troop carriers by nearly 80 percent, to include a large number of BMPs.*
 - *Increased tube artillery by 40 percent and multiple rocket launchers by 70 percent.*
 - *Replaced much of their towed antitank artillery with vehicle-mounted and man-portable antitank guided missiles and have begun to replace towed antiaircraft guns with mobile SAMs.*
 - *Began deployment of the SA-5.*
 - *Upgraded tactical aircraft by replacing early-model MIG-21 Fishbeds with more advanced versions and have begun to acquire MIG-23 Floggers.*
-

cannot account for all the reasons for the procurement plateau, but the evidence indicates that in two East European countries policy decisions in response to domestic economic conditions held down procurement and that economic factors may well have played an important role in the region as a whole:

- The procurement plateau in Eastern Europe, like the slower rise in procurement in the USSR, occurred in a period of lower economic growth. Since the mid-1970s, the rate of increase of GNP throughout the Warsaw Pact has been the lowest in the post-World War II era. The economic slide in Eastern Europe has been even more severe than in the USSR because of the added problem of the foreign debt crisis.
- In all East European countries, arms imports are in competition with imports of investment and consumer goods. Paying off foreign debt has claimed an increasing share of East European export earnings, which would otherwise go to purchase much-needed imports, including weapons from the USSR. This has been true particularly in East Germany, Poland, Romania, and Hungary.

- In Poland in the early 1970s and in Romania in 1979, statements by government officials indicated that policy decisions to allocate a larger share of resources to the civilian economy were responsible in part for the procurement slowdown in both countries.

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NSWP Defense Priorities. Both direct and indirect evidence suggest that in Eastern Europe defense traditionally has had a lower priority and consumption a higher priority than in the USSR. Because the procurement slowdown predates Eastern Europe's economic troubles, it may—at least initially—have been the result of decisions to lower the relative priority of defense in favor of consumption.

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The challenges to Soviet wishes appear to have come most often from Romania, Poland, and Hungary—countries for which our estimates show the least procurement growth after 1975.

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The High Cost of Military Modernization. Another obstacle to upgrading NSWP arms is the high cost of new generations of weapons, particularly those with advanced technology. Using dollar costs, we can illustrate the impact of different rates of modernization on NSWP procurement costs. For instance, the cost of replacing the NSWP's T-54/55s with T-72s today would be equivalent to its procurement for all land arms in the last decade. Similarly, the cost of upgrading NSWP MIG-15/17s to MIG-21s and current holdings of MIG-21s to MIG-23s would equal NSWP procurement of all types of aircraft during the last 10 years. Achieving the above goals would take 34 years at the current rate of procurement growth. Even so, by the time this hypothetical program could be completed, NSWP forces would be equipped with weapons first deployed in the early 1970s. Eastern Europe is understandably reluctant to undertake ambitious modernization programs.

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Other Factors. Although there is strong evidence that policy decisions related to general economic difficulties and the high cost of modernization slowed East

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European military procurement, other economic factors played a contributing role. For example, weapons manufacturing problems clearly pushed land arms procurement below intended levels. Contrary to Soviet intentions in providing the designs and production technology for the T-72 tank to Czechoslovakia and Poland, NSWP tank modernization was slowed for several years by T-72 production problems. The tank is still only in limited series production there. Manufacturing problems with the Czechoslovak 152-mm self-propelled howitzer delayed its serial production also. Procurement of support equipment, much of which is produced domestically, accounts for about half of NSWP procurement and is affected by the same materials and energy shortages and transportation bottlenecks that have afflicted Eastern Europe generally. []

The reluctance to support higher defense spending on economic grounds is reinforced by Eastern Europe's appraisal of the NATO threat. Warsaw Pact military plans are based on a conflict with NATO, but knowledgeable sources within the Pact report that most NSWP officers do not believe NATO has either the intention or the capability to initiate an attack. We have little information on the views of key NSWP leaders, other than in Romania, on the strategic "threats" to their countries. We believe, however, they also do not seriously entertain the possibility of a NATO attack. []

Prospects for Future NSWP Military Programs

The relatively low shares of GNP accounted for by East European defense activities (less than half that of the Soviet Union), and their much lower annual growth rates, suggest not only that the East Europeans have given a lower priority to defense than has the USSR, but also that they have successfully resisted longstanding Soviet pressure to do more. In effect, the East European governments have arrived at a relatively stable balance between Soviet pressure for more defense spending and their own economic priorities, although the balance varies from country to country. Economic problems have reinforced this resistance in most of the NSWP countries, but the experiences of Bulgaria and East Germany, whose procurement costs have continued to grow despite slower economic growth, show that political decisions can sometimes

run counter to economic pressures. However, even in East Germany, apparently the most "pro-defense spending" of the NSWP countries, defense costs are growing only half as fast as in the USSR. []

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If the slow growth of NSWP defense costs after 1973 is an accommodation to slower economic growth and changing priorities, we would not expect a return to faster growth in defense activities soon. The East European economies suffer from serious structural problems—rigid central planning, poor management, rising energy and raw material costs, obsolescent industrial plants, and an unmotivated labor force—which make sustaining annual GNP growth rates much above 2 percent unlikely. The economic prospects for East Germany, Czechoslovakia, and Bulgaria are better than for Poland, Hungary, and Romania. Improved performance for the first three would make a modest upturn in defense procurement more likely, but only East Germany's and Bulgaria's priorities have consistently favored defense procurement in the past. []

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Future growth in NSWP military procurement will probably hinge on acquisition plans for aircraft, which historically have accounted for one-fifth of all procurement costs. If the NSWP continues to emphasize savings by buying upgraded models of 20-year-old aircraft rather than modern aircraft, cost growth probably will remain restrained. Land arms costs, which have accounted for 12 percent of NSWP procurement, will be heavily influenced by the pace of tank modernization programs. []

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Implications for Relative Capabilities of Soviet and NSWP Forces

Eastern Europe's economic performance and the lower priority given to defense have increased the quality gap between NSWP and Soviet forces. Despite Soviet success in extending control over NSWP arms production and procurement, NSWP forces in the mid-1970s were well behind the standards for Soviet units in Eastern Europe, and the differences have continued to widen. The northern-tier ground forces lagged forward-deployed Soviet units by five to 10 years or more in many categories, while southern-tier nations were equipped with even fewer modern weapons. The

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gap will almost certainly grow given the nature of Eastern Europe's economic problems and the political difficulty of squeezing consumers to pay for major defense increases. []

Most disturbing to the Soviets is the fact that NSWP forces are falling behind in precisely those categories of equipment most critical to the Soviet conventional strategy, which is based on integrated firepower and combined-arms maneuver. For example:

- The East Europeans do not have the latest Soviet tank (the T-80), and only Czechoslovakia has a division's worth of T-72 tanks. Only a few countries have improved T-55s or T-62s, and several still have World War II-vintage T-34s in active units.
- Most forces still rely on towed antiaircraft guns rather than surface-to-air missiles.
- Most NSWP divisions do not have attack helicopters.
- As of 1984, only 40 percent of NSWP aircraft represented models introduced since 1970, compared with 80 percent for Soviet aircraft opposite NATO. []

The current Soviet emphasis on improving conventional forces threatens to leave the NSWP forces further behind. Although we anticipate that the NSWP forces will make important gains in the future in selected areas, they will have great difficulty adopting some of the most promising Soviet combined-arms tactics, such as the operational maneuver group or the reconnaissance strike complex, and in developing the integrated fire support viewed by the Soviets as the key to defeating NATO's air and armor defenses of the future. []

Soviet Options

Soviet options for improving their allies' capabilities are few and unappealing:

- They could subsidize East European arms imports by allowing them to run trade deficits with the USSR, but this would be backtracking on current moves to cut support of the Eastern Bloc.

- They could demand that NSWP regimes raise defense spending, at the cost of investment and consumption, but this would run the risk of stifling economic growth, sparking political unrest, or both.

- They may pay more of the East Europeans' defense bill, but, because they are in the midst of their own costly force improvement program, they are unlikely to offer the expensive, long-term support necessary to close the gap in force capabilities.

- They could give the East Europeans a bigger stake in the production of Soviet weapons. This, however, goes against longstanding efforts to specialize, rather than diversify, NSWP defense industry and would also require an expensive and lengthy upgrading of the East European defense industry. []

The Soviets will probably offer some older equipment on concessionary terms, but this also would not close the gap. Even with these measures, they might have to take on a greater share of the Pact's wartime missions. The Soviets have apparently experimented with the precombat deployment of some of their own forces from the western USSR to Eastern Europe. This would compensate for the NSWP's failings in wartime, but in effect would concede defeat in Moscow's efforts to narrow the increasing discrepancy between Soviet and NSWP capabilities. Ultimately, the USSR may have to consider a return to its former strategy of more limited use of NSWP forces in an independent offensive role. []

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The Warsaw Pact at 30

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The Warsaw Pact is the most important institutional embodiment of the USSR's relationship with Eastern Europe and has several key functions in Soviet policy. It is first and foremost a military alliance that serves as the instrument of Soviet command and control over East European armed forces in time of war and provides justification for the stationing of Soviet military forces in the region during peacetime. Second, it is a political alliance that furnishes a framework for Soviet efforts to coordinate the Pact's foreign, defense, and economic policies. Third, it serves as an instrument for enforcing Soviet domination of the region, providing a mechanism to pressure deviant allies, and, if need be, a coercive means to guarantee the survival of pro-Soviet regimes.

The Warsaw Pact has undergone considerable evolution since its creation in 1955. For the first six years, it provided only a multilateral veneer for the fundamentally bilateral network of relationships between the Soviets and the East Europeans. An extensive joint exercise program during the 1960s laid the foundation for a significant expansion of the Pact's military institutions in 1969, and an additional mechanism for coordinating foreign policy was created in 1976. The obligatory formal extension of the Warsaw Treaty in 1985, however, was not used to revise its text to reflect these—and possibly further—organizational changes.

Background: The Early Years

The treaty signed by the prime ministers of the USSR and seven East European states¹ in May 1955 provided only the bare bones of the alliance's institutions. A single deliberative body was created—the *Political Consultative Committee* (PCC)—composed of a member from each signatory government “or another specially appointed representative” and tasked with conferring on “important international questions

¹ The founding members were Albania, Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, Romania, and the Soviet Union. Albania ceased participating in Pact activities in 1961 and announced its withdrawal in 1968.

touching upon their common interests.” A combined command was also established, headquartered in Moscow. A Soviet marshal was appointed its commander in chief (CinC), and the defense ministers of the Pact's members were designated as his deputies. While military units from each state were to be “assigned” to the Pact's Combined Armed Forces (CAF), they would remain, at least in peacetime, under national control.

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The Warsaw Pact was largely a hollow shell in its early years. The PCC met only twice prior to 1960, with senior government figures rather than top party leaders attending. No official joint military maneuvers were conducted, nor were there any meetings announced of the defense ministers with the commander in chief of the CAF. The Warsaw Pact played no identifiable role in the suppression of the 1956 Hungarian uprising, which was put down by the unilateral action of the Soviet army.

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Soviet initiatives in the early 1960s—and the confrontations that ensued over Germany and Berlin—led to the activation of the Warsaw Pact as an instrument of Soviet foreign and defense policies. PCC meetings were convoked more frequently to provide Soviet-orchestrated endorsements of proposals for a European peace treaty that would recognize the division of Germany, and for changes in the status of Berlin to curb the flow of refugees to the West. Chiefs of delegations to these meetings were upgraded to the level of Communist party first secretaries, and the delegations themselves were expanded to include premiers as well as foreign and defense ministers.

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Heightened tensions in Europe in turn led to more serious efforts to mold the Pact into an effective military alliance. The Pact defense ministers met separately in September 1961 for the first of what became almost annual sessions. The commander in chief of the Combined Armed Forces conducted the

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Figure 1. Soviet Premier Bulganin signs original Warsaw Treaty. Foreign Minister Molotov, newly appointed Pact CinC Konev, and Defense Minister Zhukov stand at left. []



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Pact's first large-scale multilateral exercise—involving Soviet, East German, Polish, and Czechoslovak troops—in October of that year. Joint maneuvers—especially those involving members of the Bloc's northern tier—became a regular feature of Pact military activity through the mid-1960s. []

The Warsaw Pact played no formal role in the invasion of Czechoslovakia in 1968. The Soviets did, however, involve most Bloc members in political and military efforts to put an end to the "Prague spring." Statements issued by the regular PCC session in March 1968 took no notice of the Czechoslovak developments. This meeting was, nevertheless, followed by a series of special Bloc summits—all boycotted by Romania and some excluding the Czechoslovak leadership—that were convened to bring pressure on the Dubcek regime. Pact exercises were also used to set the stage for the invasion, and, while the CAF command staff did not itself direct the operation, armed forces from all Pact countries except Romania participated in the occupation of Czechoslovakia under Soviet direction. []

Military Structure

Meanwhile, the Pact for several years had been discussing plans for expanding and reorganizing its military institutions. We believe these reforms were undertaken to satisfy rather different—and indeed somewhat contradictory—Soviet and East European desires. Authoritative writings show that the Soviets wanted to improve their ability to direct and coordinate Bloc military policy—a capability they intended to use to bring the East European military establishments into line with expanded requirements that

evolving Soviet military doctrine foresaw for the Pact's armed forces. But, at the same time, []

[] the East Europeans saw the new institutional arrangements as enhancing the consultative aspect of Pact policy formulation, thereby offering improved opportunities to voice their own views. []

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The reorganization adopted at the March 1969 PCC meeting in Budapest recast command and staff arrangements for the Pact's Combined Armed Forces and created several additional organs to handle various aspects of Bloc defense policy. The reforms put an end to the anomalous situation whereby all Bloc defense ministers—including even the Soviet—were nominally deputies to a Pact CinC who traditionally was a Soviet first deputy defense minister. The national ministers would now meet annually as the Pact's *Defense Ministers Committee*, nominally equals under a rotating chairmanship, to consider measures to strengthen Bloc defense capabilities, improve organizational arrangements, and increase combat readiness. []

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The CinC of the Combined Armed Forces meanwhile was given a new set of deputies drawn from the ranks of deputy defense ministers in each Pact member state. Together with the CAF Chief of Staff, the CinC and these "national" deputies constitute the Warsaw Pact's *Military Council*, which is convened twice a year to consider the state of combat readiness and training. Additional deputy CinC slots have also been established for Pact naval, air, and air defense

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Figure 2. CPSU General Secretary Gorbachev signs Pact renewal. Seated left to right: Defense Minister Sokolov, Premier Tikhonov, Gorbachev, Foreign Minister Gromyko, and Central Committee Secretary Rusakov. []



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forces and rear services—posts that are reserved for Soviet appointees. []

New institutions were also established to promote standardization of military equipment within the Bloc and to coordinate weapons R&D and production. A *Military Scientific-Technical Council*, composed of a deputy defense minister from each Pact member, was created to provide policy guidance. Staff support and day-to-day management are performed by a *Technical Committee* at Pact command headquarters in Moscow. A Soviet general was named deputy commander in chief of the CAF for armaments. His duties include chairing the meetings of the Military Scientific-Technical Council and directing the work of the Technical Committee. []

The Warsaw Pact's "Peacetime Statute," implementing the 1969 military reorganization, officially acknowledged the equality and sovereign rights of all the Pact's members. In particular, it stipulated that, as before, the military units "assigned" by the individual states to the Pact's Combined Armed Forces would remain under the control of their respective national authorities in peacetime. []

The contradictory interests motivating the Soviets and the East Europeans to enact these reforms predictably resulted in neither side fully achieving its wishes. Considerable Soviet pressure has brought the more advanced East European armed forces—the East German, Czechoslovak, and Polish—closer to the standard of their Soviet counterparts, and thereby has made them better prepared for their anticipated wartime roles. But the other Bloc armed forces lag decades behind in modernization and are generally ill

trained, ill equipped, and unmotivated. The Romanians, in addition, have publicly aired disagreements over defense policy—most notably following the November 1978 PCC session, when they refused to go along with plans to increase defense spending throughout the Pact. They have also forced the Soviets to go around them—both figuratively and literally—in conducting exercises. []

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Policymaking Structure

The Pact's policymaking machinery has also been expanded on the civilian side with the creation of an additional body to coordinate foreign policy. Pact foreign ministers had begun meeting nearly annually in the late 1960s, leading to the formal establishment of a *Foreign Ministers Committee* in November 1976. A Soviet proposal to increase the frequency of this body's meetings to twice a year reportedly was adopted at its April 1983 session. The proposal may have stemmed from Soviet interest in stepping up the Bloc's political offensive against US INF deployments in Europe. The Pact foreign ministers held no formal meetings of their own in 1985, but this hiatus may reflect the plethora of official and unofficial Bloc summits, which brought the group together on three occasions that year. In contrast to the extensive command and staff system developed to support the Combined Armed Forces, an extensive foreign policy bureaucracy apparently has not been established. []

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The Political Consultative Committee also apparently lacks a permanent political secretariat of its own, and the Soviets for many years have provided administrative support and direction out of their own foreign

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ministry. A Soviet deputy foreign minister with a background in East European affairs, Nikolay Firubin, was publicly identified as "general secretary" of the PCC in connection with its July 1966 meeting in Bucharest, Romania. He continued to perform this role until illness precluded his participation in the January 1983 PCC session in Prague. A Czechoslovak deputy foreign minister acted as general secretary of the PCC at that meeting, and a senior Bulgarian diplomat was identified in this post at the PCC's October 1985 session in Sofia, indicating that the job probably now rotates to the Pact member hosting the meeting. []

In all likelihood, the general secretary is the senior administrative officer charged with preparations for the PCC session. His most important function would be to oversee the drafting of the communique and the political declaration issued in the name of the PCC. Important though this task is, the post obviously lacks the independence, stature, and responsibility attached to the position of NATO's secretary general. []

We believe the establishment of a permanent political infrastructure was a point at issue in the deliberations over renewal of the Warsaw Treaty, which was scheduled to expire in May 1985. []

[] the Romanians, in the fall of 1984, proposed the creation of a permanent committee—perhaps a counterpart to the NATO Council—to coordinate Bloc positions on all important international questions. Such a proposal is consistent with President Ceausescu's public advocacy of greater participation by the rank-and-file members of both the Warsaw Pact and NATO in the formulation of alliance positions, especially for arms control negotiations, that are normally considered a "superpower" preserve. The Soviets no doubt would veto anything so ambitious. Other Pact members who have sought to pursue more independent foreign policies in recent years, such as Hungary and East Germany, may have been torn between the temptation of enhanced consultative opportunities and concern that institutional modifications could be used to enforce greater Bloc cohesion—that is, Soviet domination—on the East Europeans. []

[] efforts to revise the treaty—in this or any other way in connection with its renewal—ran afoul of Romanian insistence that only

the top party leaders, operating by unanimous consent, could consider such changes. While Ceausescu in an October 1984 speech announced acceptance in principle of prolongation of the Pact, Romania continued to haggle privately over the length of the extension. This amounted to no more than a bargaining tactic, ultimately unsuccessful, to extract Soviet economic concessions, particularly in oil and gas deliveries. Ceausescu finally gave in to Soviet insistence that the treaty extension match its original duration—20 years with automatic renewal of 10 more—at the 13 March 1985 meeting of Bloc leaders following Chernenko's funeral. []

As a result, the Warsaw Pact was extended through a protocol to the original treaty, signed by the Bloc party leaders in Warsaw on 26 April 1985, that changed none of its language but merely extended its life for another 30 years. The Pact has, nonetheless, changed in significant ways. []

Effects of Evolution

While it has not become an alliance of genuine equals, it has evolved into a forum where at least some policy consultations take place. At times these may be simply for show—as when Gorbachev imitated President Reagan's post-Geneva briefing of NATO Allies with a snap convocation of Bloc leaders in Prague. More substantively, however, the East Europeans have been able to influence the tone of statements issued in the Pact's name. Pact declarations in the 1980s have not matched the stridency of Soviet rhetoric on NATO INF deployments and have not fully endorsed Soviet arms control positions. The tone of these statements probably reflects East European desires to maintain openings to the West that Moscow was inclined to close. []

The Pact has also become a much more cohesive military alliance than the original collection of Soviet-dominated East European armies despite considerable foot-dragging within the Bloc on increases in defense spending (see the article "Slower Growth in Non-Soviet Warsaw Pact Defense Costs"). The Soviets forced through changes in the Pact's wartime command system at the end of the 1970s that, while not publicized, have been alluded to by the Romanians, who refused to concur. These regulations for the first

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time provided for the subordination of non-Soviet military forces to the Soviet Supreme High Command in advance of hostilities. These measures could serve to undercut the principle of peacetime control over the members' armed forces by their respective national authorities and could be used by Moscow to commit the Pact's East European members to an active role in a conflict without consultation with appropriate party or government leaderships. [REDACTED]

The Soviets also increasingly see the Warsaw Pact as an appropriate instrument for assuring the survival of pro-Soviet regimes in Eastern Europe. Marshal Viktor Kulikov, CinC of the Pact's Combined Armed Forces, played the most active role in bringing pressure directly to bear on Polish authorities during 1981 to institute martial law and suppress the Solidarity movement. Kulikov's threatening words were backed by menacing Soviet military maneuvers under the guise of Pact exercises, and the Poles were convinced that at least token units from most other Bloc members would participate in any direct Soviet military invasion.³ As in the 1968 Czechoslovak case, the PCC did not itself consider the developments in Poland, but an extraordinary summit of Bloc party leaders was convened in Moscow in December 1980 to discuss the situation. Should the Soviets deem it necessary to use force in the region at some future date, the strengthened and refurbished Pact command structure could play a more active role than in past similar crises.

[REDACTED]

Prospects

Gorbachev probably will seek tighter control over Eastern Europe—and the Warsaw Pact—after several years of neglect from elderly and infirm leaders in Moscow. He is faced, however, with alliance partners who, having sampled some modicum of independence and influence in collective policymaking, are likely to resist efforts to turn the Pact back into a totally compliant instrument of the USSR. [REDACTED]

[REDACTED]

As in the past, the Soviets are likely to be more insistent on having their way on military arrangements than on foreign policy questions. In particular, they may attempt to integrate Soviet theater commands created in the fall of 1984 into the Pact's peacetime command structure.⁴ Such a move could further subordinate East European armed forces to the Soviet command system and compromise still more the ability of East European political authorities to retain control over their national armed forces. Romanian demurrals on such arrangements is certain so long as Ceausescu remains in power. Eventual compliance with Soviet wishes, albeit with considerable reluctance, is the more likely course elsewhere in the Pact. [REDACTED]

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Soviet-Romanian Relations: Problems and Prospects []

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Romania's Problems

The situation in Romania, chronically troubled since the early 1980s, continues to deteriorate. The principal causes of this decline include the faltering economy and President Ceausescu's deteriorating health, which for the first time has raised speculation in Romania of an earlier-than-expected succession. In addition, Soviet General Secretary Gorbachev is more vigorously asserting Moscow's influence over Eastern Europe, including Romania, and putting more pressure on the East Europeans to follow Moscow's lead, especially in foreign affairs and defense policy.

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The economic outlook is bleak. The economy has not recovered from last winter, when unusually harsh weather left the country without energy reserves. Most signs, however, indicate Ceausescu will try to maintain his vigorous pursuit of debt reduction (that is, rapid payoffs of the debt through large trade surpluses), even though the resulting austerity will continue to undermine the economy. []

Such policies will depress already low living standards even further. At best, the allocation of heat and electricity to households will only match last year's painfully inadequate supplies. The overall food supply will be lower, in part because of heavily increased net exports of wheat in the 1984-85 marketing year and increased meat exports to pay for Soviet energy. The 1985 grain crop was only about 16.6 million metric tons, some 2.4 million tons less than that of 1984 and perhaps the smallest since 1975. Bread rationing has been reimposed in some localities. []

Ceausescu's security forces have maintained tight control, and so far there have been no signs of unrest. Absenteeism appears to be on the rise, however, and the domestic situation could deteriorate in the event of a succession crisis, especially if the population were unsure of the leadership's stability and resolve. []

[]

Although reports vary concerning the nature and gravity of Ceausescu's illness, it is clear he is ailing.

[]

Yet he still presides over lengthy leadership meetings, hosts a steady stream of visitors, and in recent months has traveled to China, North Korea, Bulgaria, and Czechoslovakia. Visitors have not detected any loss of mental acumen. []

The View From Moscow

Under Gorbachev the Soviets seem to want to stem the drift of recent years that allowed the East Europeans to assert some measure of greater independence. The new limits of Soviet tolerance are not yet clear, but early indications suggest that Gorbachev will more actively manage the Soviet-East European relationship. He is pressing for greater integration of East European economies with that of the USSR and for the allies to be more responsive to Soviet economic, political, and military initiatives. Specific policies that have caused friction with the Romanians include:

- Pressure on the East Europeans to follow the Soviet foreign policy lead and to clear bilateral initiatives outside the Bloc with Moscow.
- Criticism of Ceausescu's industrial policy and Soviet insistence that Romania supply CEMA with more agricultural commodities.
- Soviet insistence on a "CEMA first" trading policy to force greater integration of the Soviet and East European economies along bilateral lines within a Soviet-dominated CEMA framework. []

The Soviets recognize that they have fewer levers of control over Romania than over any of their other Warsaw Pact allies. Party and military contacts are not close and Romania's trade is highly diversified.

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Moscow views Romania as a special case in Eastern Europe, providing both a challenge and an opportunity. The Romanians have often opposed Soviet proposals in Warsaw Pact forums, embarrassing Moscow and creating a potential stalking-horse for other East European grievances. []

We believe that the Soviets have tolerated Romania's aberrant foreign policy because Ceausescu's authoritarian and ideologically orthodox regime has served other Soviet national security interests well. Additionally, the Soviets may have felt that the political, military, and economic costs of altering Romanian behavior would be too high and that they lacked instruments of control in Romania to assure them that pro-Soviet policy options would be regularly pursued. In any case, Romania has been a stable border state with a firmly entrenched Communist ruling party. Its narrowly nationalistic foreign policy, its weak economy, and Ceausescu's personality cult have had little appeal in Eastern Europe, calming Soviet fears somewhat that Romania might serve as an example to other allies. []

Soviet Concerns and Assets

A stable Romania—with or without Ceausescu—appears to be Moscow's chief concern. While Gorbachev is consolidating his power and pursuing an ambitious internal agenda, he would find domestic turmoil in Romania to be most unwelcome. We judge that he would also find the Soviets currently have few reliable means of influencing Romania under Ceausescu. Recent official visits of high-level Romanians to Moscow have been described by the Romanians as difficult, suggesting no improvement in relations has occurred under Gorbachev. In fact, our evidence in several areas indicates the same.

Trade Levels. Despite recent agreements in principle to nearly double Soviet-Romanian trade, trade levels in the 1982-84 period fell below that of 1981, though they improved somewhat last year. Moscow has insisted on payment for its energy and raw materials in hard currency or "hard goods," which Romania needs for its international trade, and Gorbachev recently informed the Romanian Prime Minister that there would be no special economic assistance from Moscow. Furthermore, Moscow has consistently linked its

economic cooperation to political demands for greater subordination to Soviet wishes, which Ceausescu will not accept. Despite Romanian probing for Soviet trade on favorable terms, Moscow has continued to drive a hard bargain, and Moscow's economic leverage to date remains limited. []

Party Contacts. Although there have been recent agreements to pursue closer party-to-party ties, [] party exchanges are frosty and that the Soviets have made no inroads in his area of the country in attracting support. At the national level, Ceausescu has reportedly isolated or purged officials who have even studied in the Soviet Union, which makes Moscow's attempts to identify and court potential anti-Ceausescu factions difficult. []

Military Contacts. The Romanian military continues to have few contacts with its Soviet counterpart.

[] the Romanians are isolated in the Warsaw Pact staff and do not participate in Warsaw Pact field exercises or allow their officers to study at Soviet academies. Romanian military attaches serving abroad—a likely target of Soviet interest—are instead reportedly treated as pariahs by the Soviets. []

Infiltrations. The Soviets do not appear to have penetrated the Romanian security forces, the bulwark of Ceausescu's personal support. []

Outlook

If Ceausescu maintains roughly his present level of health—on balance a better-than-even chance in the near future—we believe he will stay in charge through 1986. But, in the event an operation causes complications and Ceausescu requires extended rest and recovery, the leadership situation could drift for some time and his would-be successors probably

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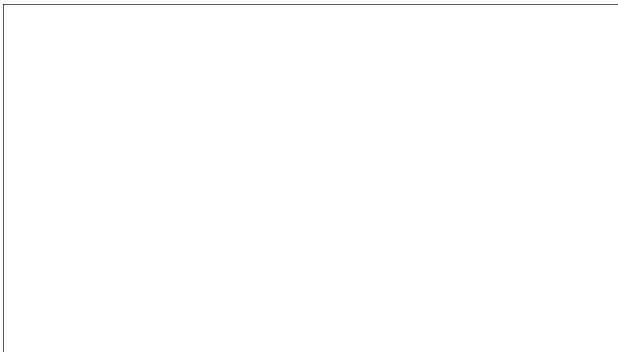
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would accelerate their maneuvering and make discreet approaches to East and West. If it became clear that he could no longer exercise the responsibilities of office, the currently remote chances of a palace coup could rise sharply. []

Ceausescu's wife, Elena, his closest adviser in personnel matters over the past decade, is best positioned to lead a post-Ceausescu collective but lacks sufficient personal power to rule alone. Hence, the chances are good that the other members of her succession team would eventually push her out of the leadership and one or more leaders from Ceausescu's inner circle would take over. The most likely kingmaker in such struggles would be Tudor Postelnicu, chief of the security apparatus. []



[] we believe the Soviets are looking for assets in Romania and are probing for opportunities to gain influence with key individuals and groups. If Ceausescu began to seriously lose control or was ousted, we would anticipate a more active Soviet role and bolder machinations. In such a changed political climate, the regime's current bulwarks against Soviet influence might be considerably weakened.

[]

Moscow does not want Romania's troubles to end in chaos and the necessity for military intervention, but probably does want Ceausescu and his regime to feel increased pressures that might make them more amenable to accommodating Soviet goals. In this vein, the Soviets probably see limited domestic turmoil in Romania to be to their advantage and do not plan to assist Bucharest out of its difficulties without exacting major concessions. The Soviets no doubt hope to influence Ceausescu and, in case of his death or

ouster, his successors through a combination of economic and political carrots and sticks as well as whatever active measures they can mount. [] 25X1

The Soviets probably see several possibilities for the future of Soviet-Romanian relations. The Romanians could muddle through their present difficulties without a breakdown of Communist rule that might force Moscow to react. [] 25X1

[] Romania's present troubles are an object lesson to Eastern Europe and will narrow Ceausescu's ability to conduct an independent foreign policy. If Ceausescu felt the need to turn to the East for help, the Soviets probably calculate he could be made to temper his annoying foreign policy and become more cooperative in Pact affairs. [] 25X1
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Alternatively, but much more unlikely, severe domestic unrest could force Ceausescu to abandon his policy of autonomy in return for major Soviet economic aid. The Soviets would probably provide such aid and capitalize on Ceausescu's vulnerability, rather than be confronted with a serious challenge to continuous Communist rule in Romania. [] 25X1

In any event, any successor to Ceausescu will face difficult domestic conditions while lacking Ceausescu's skill, experience, and knowledge. Hence, any post-Ceausescu leadership will probably be more vulnerable to Soviet pressures and more willing to mute Romanian foreign policy independence in return for Soviet economic support. [] 25X1

Moscow will probably use any influence it develops with Ceausescu, or especially with a post-Ceausescu leadership, to pressure the Romanians to pursue some or all of the following policies: 25X1

- Publicly endorse the Warsaw Pact and Soviet foreign and military policy lines while privately desisting from disruptive objections to Soviet initiatives at Pact and CEMA meetings.
- Funnel more resources into the agricultural sector.
- Place more emphasis on promoting pragmatic technocrats—men with proven experience managing major economic sectors. [] 25X1

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Without a major breakdown of authority in Romania or a regime change with powerfully clear anti-Soviet implications, the Soviets probably would not want to pay the price of military intervention. Romania is not as strategically significant as northern-tier countries. Moreover, the Romanians stress a decentralized "defense of the homeland" military doctrine that would make a quick clinical intervention difficult. The Yugoslavs also would see Soviet intervention in Romania as a direct threat. Not only would they condemn it, but it could also result in Yugoslav military mobilization and a clearer orientation of Yugoslavia toward the West, heightening tension throughout Eastern Europe. Although the Soviets would probably judge that their military intervention in Romania would not provoke direct US military actions in support of Romania, they would fear that their intervention would freeze US-Soviet relations. Perhaps even more important, it could be a disaster for Moscow's Pan-European policy, and, as in the Polish crisis, set off a fresh round of pro-NATO sentiment in Western Europe. []

Implications for Moscow

Romania's economic difficulties and the Ceausescu regime's harsh police state are in Moscow's interest; hence, time is on the Soviets' side as long as the Kremlin can avoid a stark choice between direct military intervention and watching a new regime even more hostile to the USSR gain power. If Romania's plight worsens, the Soviets could offer modest amounts of vital supplies in return for incremental compromises by Bucharest. If the Romanian regime publicly acceded to Soviet desires on unfavorable terms, this might inflame nationalistic sentiment and further undermine the government's already low popularity more than Soviet aid would bolster the Romanian economy. Concurrently, however, such aid could help Moscow to build a constituency that in a succession crisis might serve it well. In the near future, though, as long as Ceausescu remains in command, the Soviets probably would expect few if any significant compromises and are unlikely to deal with the Romanians on concessionary terms. []

The situation could rapidly become far more fluid should Ceausescu become incapacitated or die. We would expect a far more aggressive Soviet policy, including active probing for clients with offers of aid and insinuations and threats if the Romanians persisted in their independent ways. If Gorbachev chose to demand Romania's full compliance with Soviet foreign policies as a condition for any assistance to a new regime, he could force a major crisis on Bucharest at a time when it would be weakest. Such a crisis could force the stark choice between direct forms of Soviet intervention and a laissez faire policy that Gorbachev wants to avoid. How well Moscow manages these concerns could prove a litmus test of the new Kremlin leadership's diplomatic skills and the challenge Moscow poses to Western interests in Eastern Europe.

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Commodity Sample in Emigre Survey

The survey data include responses to a query on the availability and prices of 22 food commodities in state stores and collective farm markets. By major group these include:

Meat, chicken, and fish

Beef	Mutton
Chicken	Pork
Fish	Sausage

Dairy products, eggs, and margarine

Butter	Margarine
Cheese	Milk
Eggs	

Vegetables and fruit

Apples	Oranges
Beets	Potatoes
Cabbage	Tomatoes

Staples

Bread	Rice
Flour	Sugar

Vodka

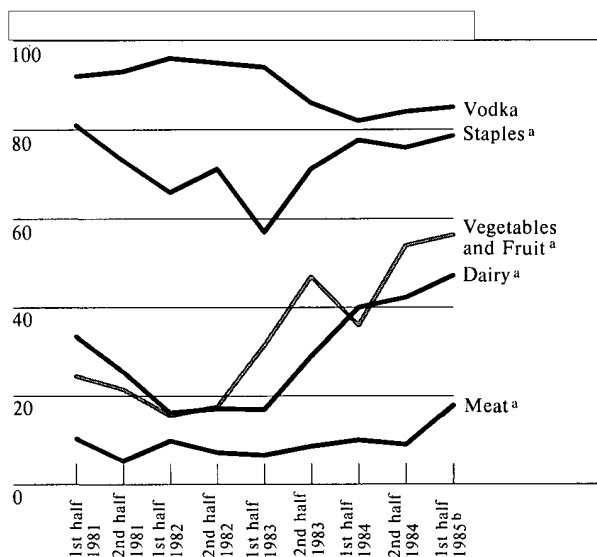
The commodity groups used in the comparisons of availability in this article exclude fish, mutton, tomatoes, and rice.

Trends in Food Availability Over Time

Agricultural shortfalls checked the progress that had been made in the 1960s and early 1970s in improving the Soviet diet. Increased queuing and shortages of quality foods led to consumer disappointment. A rising incidence of strikes related to food shortages in 1980-82 was a cause of concern to the leadership. General Secretaries Brezhnev, Andropov, and Chernenko adopted several measures to cope with the food problem, including rationing, special distribution of food at the workplace, and large purchases of food-stuffs and grain from abroad.

these policies, with the help of better harvests in 1982 and 1983, had some success in boosting food availability in 1983 and 1984.

Figure 1
USSR: Trends in Availability of Selected Products in State Stores, 1981-85



^a Weighted average of the reports of *regular* availability of the included products (see inset for product list).

^b Data for 1st quarter 1985.

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The category of vegetables and fruit showed the most improvement over the four-year period. The share of respondents who found fresh produce regularly available in the first three months of 1985 was 30 percentage points higher than that in the first half of 1981. Reflecting a general slippage in availability of food products from 1981 to early 1983, the share of respondents reporting regular availability of dairy products fell to a low of 17 percent in the first half of 1983. By early 1985, 47 percent of the respondents indicated that there was regular availability of dairy products. Some improvement in meat supplies over previous levels was noted in early 1985. []

Despite improvements over time in the availability of food products, some items are still more difficult to obtain than others in the state retail trade network. Meat and dairy products in particular are problem categories. For example, fewer than one-third of the respondents in our sample in 1985 reported that beef, cheese, chicken, pork, or sausage could be purchased regularly in state stores.² In contrast, three-fourths reported regular availability of fish. []

As expected, staples are among the most easily obtainable items. Some 93 percent of our 1985 sample reported regular availability of bread and 78 percent regularly found sugar stocked in state stores. []

Only vodka rivaled bread as the most regularly supplied item. In 1985, 85 percent of those surveyed said that vodka could be found easily in the state trade network. We expect that this large supply of alcohol fell off later in 1985 as a result of Gorbachev's antialcohol campaign. The Soviet statistical authorities announced a 25-percent drop in alcohol sales in the second half of 1985 as compared with the same period in 1984. []

The upward trend toward increased availability of the major categories of food groups did not continue through 1985, however. Official Soviet data on economic performance in 1985, as well as our estimates of net farm product imports, indicate that total availability of farm products declined somewhat in

² The shares of respondents reporting regular availability of these goods in state stores in the first quarter of 1985 were 17, 31, 22, 21, and 28 percent, respectively. []

1985. This suggests that per capita food supplies declined slightly. Meat production, for example, appears to have increased only marginally over the 1984 output level. A smaller vegetable crop in 1985 as compared with 1984, including a large drop in the size of the potato harvest, probably led to a decline in the availability of vegetables. Reporting from the agricultural counselor at the Embassy in Moscow also suggests a general tightening up of food supplies in the second half of 1985. Emigrant sources in 1985 also indicated an increasing incidence of little or no supply of meat and dairy products, particularly butter. []

City Size as a Predictor of Food Availability

Our data base indicates that city size is a good predictor of relative availability of food supplies. Cities with populations of over 1 million have the best supplied state stores for all categories of food products (see figure 2). Availability is most limited in small cities with populations of less than 100,000. The availability of food products in medium-size cities fell between that of large and small cities for each group examined. This accords with reports from Soviet open sources that large, industrialized areas receive preferential treatment regarding distribution of food. The intent is to provide for and maintain the support of the key element of the work force—industrial labor.³ []

The difference between food availability in small and large cities is most acute in the case of meat. Whereas more than 20 percent of all respondents from our sample of large cities in 1984 reported regular availability of meat in the state network, fewer than 5 percent of the respondents from the small cities could consistently obtain meat from that source. Beef and sausage, for example, were never regularly available at the state stores in small cities, whereas the shares of respondents indicating regular availability of these products in large cities were 15 and 42 percent, respectively. []

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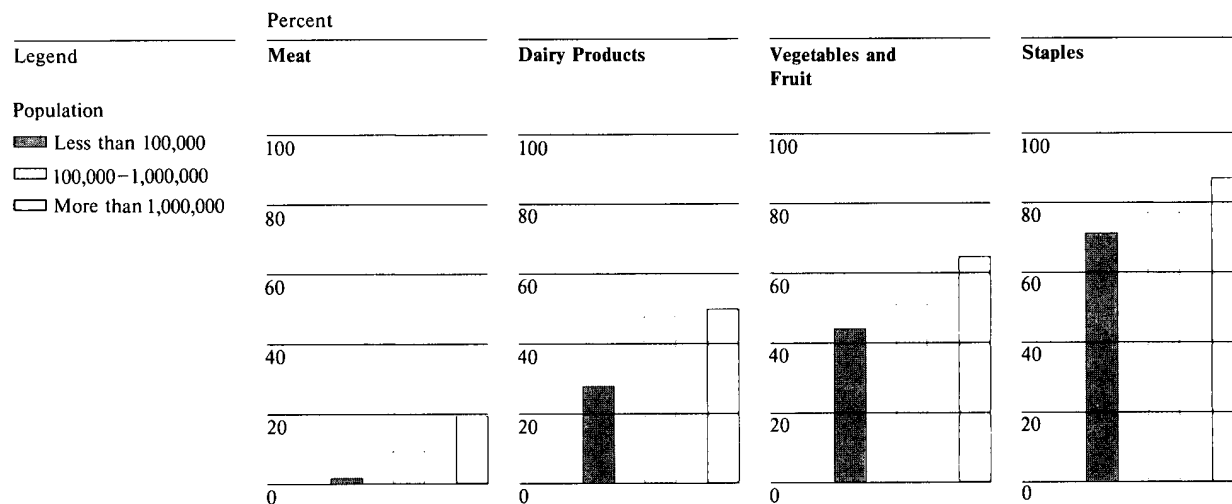
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Figure 2
USSR: Share of Respondents Reporting *Regular* Availability of
Selected Food Products in State Stores, by City Size, 1984



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City Size as a Predictor of Price Differentials

The data base also suggests that prices in the collective farm markets relative to state prices are higher in small cities. This reflects a relatively tighter food supply situation in small cities than in large urban areas. Although the free markets provide some foods not available in the state stores, the greater price differences in small cities indicate that there is more

unsatisfied demand for food in small cities than in large cities. The price differentials between collective farm market prices and state store prices also reflect substantial differences in shopping convenience and in the assortment and quality of the food products (see figure 3).

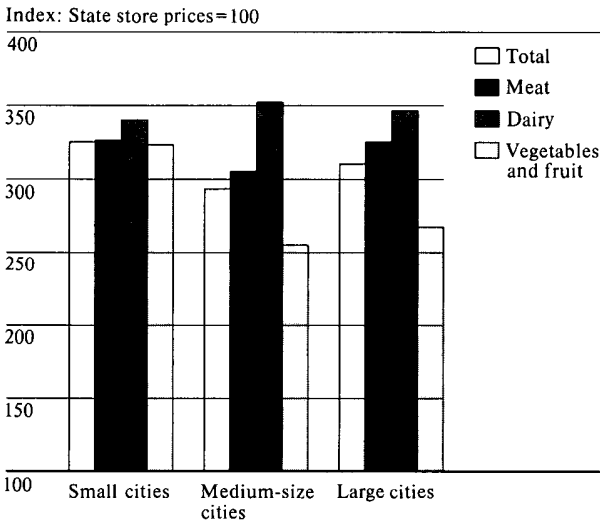
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Figure 3
Relation of Collective Farm Market
Prices to State Store Prices, 1984^a



^a Eight-commodity sample.

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For example, our sample showed that average market prices for a sample selection of foods were 3.25 times higher than average state prices in small cities in 1984, but only 2.93 times higher in medium-size cities and 3.10 times higher in large cities.⁴ The differential between collective farm market prices and state store prices for meat is noticeably lower for the medium-size cities than for either the small or large cities.⁴ The market-state price differentials for dairy products are relatively even over the range of city sizes, but for vegetables and fruit the differential is noticeably greater in the small cities. [redacted] 25X1

⁴ Although there is little difference in the differential between small and large cities for beef and pork combined, the market prices for beef in small cities are higher than state prices by a proportionally greater amount than in large cities; for pork this relation is reversed. [redacted] 25X1

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The Soviet Construction Materials Industry: Its Role in Economic Expansion

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The efficiency of the national economy and the rates of our growth depend to a great extent on the structure and quality of materials. At present we are lagging in this task.

*Mikhail S. Gorbachev
at the June 1985
Science and Technology Conference*

Mikhail Gorbachev's aggressive industrial modernization program will challenge the construction materials industry to supply more and better quality building products for renovating and expanding production facilities.¹ In addition, his program to improve consumer welfare depends, in part, on more and better housing. Whether the industry can meet these challenges depends on its ability to overcome a number of problems that have contributed to its deteriorating performance over the past decade.

A Troubled Industry

Rapid increases—averaging nearly 10 percent per year—in the output of construction materials in the 1961-75 period were followed by an abrupt slowdown in growth to only 2 percent annually in the last half of the 1970s. Since 1980, performance in the industry has been mixed: production virtually stagnated in 1981-82 but made a moderate recovery in 1983-84. The severe winter hampered output in the first quarter of 1985, limiting industry growth to less than 2 percent for the year as a whole (see table 1).² The rate of growth of cement production was less than half that originally targeted for 1981-85. Production increases for other products remain well below those necessary to assure an adequate supply of materials to meet the newly promulgated industrial investment plans for the balance of the decade.

² Performance in the precast ferroconcrete sector was so abysmal that the Soviets withheld monthly production statistics for three consecutive months early in 1985.

Factors contributing to slow production growth include the deteriorating quality and shortage of raw materials, aging plant and equipment, inadequate investment, shortages of labor, irregular supplies of energy, and transportation bottlenecks. These deficiencies are exacerbated by the fragmentation of administrative responsibility for the planning, production, and distribution of construction materials.

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Impact of Poor Performance

The poor performance of the construction materials industry, along with excessive waste in Soviet use of construction materials, has had a substantial negative impact throughout the economy. Many different industries as well as specific geographical areas have been affected. Although 1979 and 1982 were particularly bad years, shortages of construction materials have occurred consistently since the mid-1970s and continued to affect Soviet enterprises in 1985 (see table 2). Appeals to the State Committee for Material and Technical Supply (Gossnab) and the Central Committee of the CPSU have resulted only in the issuance of decrees calling for additional production from enterprises of the Ministry of the Construction Materials Industry and increased availability of rail transport.

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The major sectors of the Soviet economy affected by construction materials shortfalls in recent years include:

- *Nuclear power.* Although overall deliveries increased substantially in 1984, continuing shortages of cement and prefabricated concrete forced Gossnab to issue a resolution to all territorial organizations requesting full cooperation in the delivery of construction materials for nuclear power stations in support of the Long-Term Energy Program.

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Table 1
USSR: Average Annual Growth of
Construction Materials Output

Percent

	1961-75	1976-80	1981	1982	1983	1984	1985 ^a
Total	9.6	1.9	0.9	0.3	2.3	1.6	1.7
Cement	7.9	0.6	1.7	-2.8	3.8	1.5	0.7
Prefabricated concrete	9.7	1.2	1.8	-0.4	3.2	3.0	1.9
Wall materials	1.7	-1.6	0.4	-0.3	2.6	-0.6	NA
Asbestos cement	6.7	-1.3	2.0	1.5	4.1	2.8	NA
Roofing materials	5.9	-0.3	-0.8	-0.4	7.9	2.4	NA
Construction ceramics	6.2	2.3	8.4	5.0	4.8	2.2	NA
Glass	6.0	4.4	0.0	-0.4	4.7	2.9	NA
Other construction materials ^b	4.7	1.1	1.1	1.1	-1.0	0.4	NA

^a Preliminary.^b Includes construction lime, gypsum, rock products, and mineral wool insulation.

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- **Rural housing.** According to *Izvestiya*, rural housing continues to face severe shortages of construction materials, especially wall and roofing materials. This has led the Committee of People's Control to reprimand the Main Administration for Trade in Economic Goods for causing the shortages.
- **Oil and gas development.** Siberian oil-drilling sites and pipeline construction projects are experiencing shortages of cement. Shortages of construction materials needed for well repairs and infrastructure development in the oil and gas fields have been a chronic complaint of the oil and gas ministries for several years.
- **Military construction.** Facilities subordinate to the Defense Ministry's Main Directorate for Special Construction—a prime contractor for the initial and ongoing construction support of facilities for strategic offensive and defensive forces—continue to be short of reinforced concrete, cement, and brick.

Past Attempts To Address the Problem

The Central Committee supports the ideas expressed at the June Science and Technology Conference on the need for . . . the production of efficient construction materials.

*Mikhail S. Gorbachev
 at Tyumen' in September 1985*

Soviet officials have long been aware of the problems confronting the industry. Official resolutions and numerous articles in the Soviet press have recommended an expansion of capacity, increased automation, and conservation of energy and raw materials. Investment, however, has been inadequate; there has been little addition to the industry's capacity since 1980. Moreover, the limited success in automation has hampered Soviet efforts to improve substantially the quality of materials produced and to reduce the labor intensiveness of the industry. There has been no effort to

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Table 2
USSR: Selected Production Shutdowns and
Work Stoppages Due to Construction Materials
Shortages, 1982-85

	Facility	Cause	Effect
April 1982	Artemovskiy Reinforced Concrete Plant (military)	Cement shortage	Production halted periodically through August 1982.
May 1982	Kola Atomic Power Station	Lack of wall and roofing materials	Construction slowdown delayed production.
October 1982	Urengoy-to-Uzhgorod Pipeline	Needed cement	Pipeline completion delayed.
November 1983	Tyumen' Oblast Gas Stabilization Plant	Lack of cement	Production halted for several days.
April 1984	Balakovo Atomic Power Station	Needed reinforced concrete blocks	Construction halted for indeterminate period.
May 1984	Kyshtym Reinforced Concrete Products Plant	Cement shortage	Production halted for at least seven days.
July 1984	Perm' Oblast Organizations	Glass shortage	Housing construction at standstill.
August 1984	Novosibirsk Military Construction Organization	Needed reinforced concrete	Half of shop shut down temporarily.
November 1984	Sukhoy Log Secondary Nonferrous Metals Plant	Needed clinker and slag	Three mills shut down for several days.
December 1984	Unidentified Ustinov Plant	Needed gypsum	Production halted for indeterminate period.
February 1985	Millerovo Metallurgical Equipment Plant	Construction material shortage	Construction delayed for indeterminate period.
March 1985	Talasskiy Brick Plant	Construction material shortage	Plant reconstruction delayed; quarter plan 20 percent fulfilled.
June 1985	Chardzhou Chemical Plant	Construction material shortage	Half-year construction plan unfulfilled.
September 1985	Tula Oblast'	Construction material shortage	Nine-month housing plan 73 percent fulfilled.

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consolidate administrative control over construction materials production and distribution. The impact of these constraints has been magnified by Moscow's inability to move ahead on the economywide conservation of construction materials. As a result, Moscow has had to rely increasingly on imports of these materials, especially insulation and refractory materials. By 1984, imports had reached \$675 million—nearly 40 percent of which was paid in hard currency (see chart). []

Looking Ahead

The proportion of plastic materials, ceramics, and other advanced nonmetallic materials is still small in the overall volume of materials. We must exploit

highly effective scientific and technological research developments, such as . . . highly effective types of polymer materials.

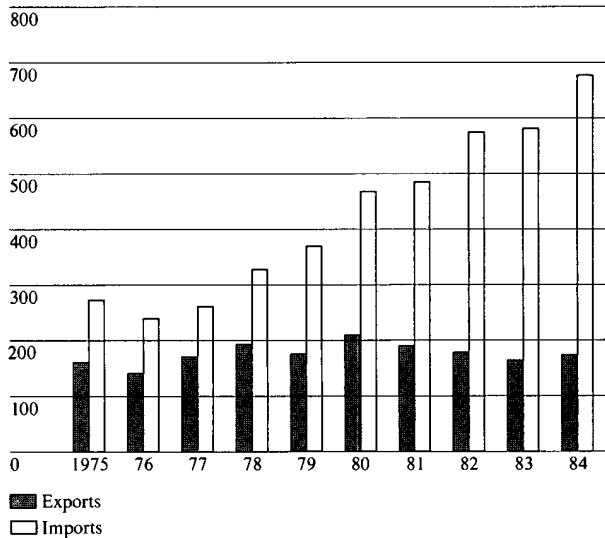
Mikhail S. Gorbachev
at the June 1985
Science and Technology Conference

With the release of preliminary goals for the 1986-90 Five-Year Plan, we have some understanding of what the industry will be tasked with over the next five years, but little knowledge yet of the flow of investment to underwrite these tasks. Although Gorbachev

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USSR: Trade in Construction Materials, 1975-84

Million US \$



Source: *Vneshnyaya torgovlya v SSSR*, various years.

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recognizes the need to reduce shortages of construction materials, he probably hopes that his emphasis on renovation as opposed to new plant construction, along with an intensive, economywide campaign to conserve on construction materials use, will allow him to hold down the share of investment to the industry. Moreover, commissioning of new capacity during the 12th Five-Year Plan (1986-90) probably will remain relatively low given Gorbachev's emphasis on the machine-building sector and the substantial savings in construction materials envisioned from the renovation of existing facilities.

In his 11 June 1985 address to the Conference on Science and Technology, Gorbachev emphasized the need to focus future work on plant modernization, a theme that has since been echoed in *Pravda* editorials. Whether this emphasis will be able to reduce demand for construction materials is problematic. In any event, some new construction will be necessary to bring down the high level of unfinished construction in the industry and to add new facilities dedicated to

the production of new, better quality construction materials that will be demanded by the construction sector, such as basalt plastics, glass ceramics, and polymeric materials.

Over the next year or so, indications that Moscow is moving aggressively to improve the performance of the construction materials industry would include:

- An increase in the investment allocated to the industry in the 1986-90 Five-Year Plan.
- Moves by Sergey F. Voenushkin—the newly appointed Minister of the Construction Materials Industry—to replace ineffective managers throughout the industry as he did in the RSFSR.
- The widespread application of a system to ensure delivery of materials to construction sites in complete sets. This would alleviate excessive amounts of material supplies at construction sites, reduce losses of materials, and avoid work disruptions caused by inadequate supplies of specific materials.
- The formation of a “superministry” of construction materials, encompassing the material-related responsibilities of the 16 organizations currently having such responsibilities, or the absorption of the construction materials ministry into the State Committee for Construction Affairs.
- The signing of a major contract with a Western—possibly US—firm for the renovation of the Novorossiysk cement plant, which could lead to a contract for the modernization of a large portion of the cement industry.
- The signing of a contract with a West German or US firm to purchase a turnkey magnesite plant and two other plants to be located in the Magnitogorsk region for the manufacture of refractory brick for the steel industry. This would double Soviet refractory output and improve substantially the quality of brick produced.

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Areas that will require long-term attention include completion of unfinished construction within the construction materials industry and improvement of the system of reports and monitoring controls over the expenditure of material resources. Increased materials conservation and expanded automation will also be necessary.

Conservation in the general economy would make a long-term contribution by releasing scarce types of primary raw materials and supplies and reducing pollution of the environment by waste products. Specific measures probably will include the assignment of specific tasks for saving material resources both for the five-year plan and each individual year, the expansion of production of lightweight structural elements, the introduction of materials with high tensile strength, and the increased utilization of industrial waste products.

Accelerated automation is a key to continuing growth of the construction materials industry and could lead to a substantial increase in the efficiency of production: higher productivity of labor, greater and more uniform output, and reduced consumption of energy and raw materials. However, this will require a number of expensive measures over the long term, especially the mechanization and automation of basic and auxiliary production processes through the widespread introduction of computers.

Perspective

Gorbachev will be hard pressed to reconcile his needs to boost investment in machine building, meet the investment needs of energy and agriculture, and increase investment in the construction materials industry. He will also find it difficult to deemphasize new construction as much as he would like and get the economywide conservation he is counting on.

If investment in construction materials is not increased in the 12th Five-Year Plan period, additional new capacities will be slow to materialize, and the inefficiencies associated with an aged capital stock will continue. Rising raw material and equipment costs could exacerbate this problem. The construction materials industry will have few resources to use for

mechanizing the numerous labor-intensive production processes that currently prevail. For example, according to press reports, about half of the workers in the cement sector are still employed in manual and auxiliary tasks. Planners, who hope to raise labor productivity through the introduction of new high-efficiency machinery, increased mechanization and automation, and better social and cultural facilities at production enterprises, will find it increasingly difficult to modernize because all these improvements depend on higher rates of growth of capital investment.

The industry's efforts to improve its raw material supply position appreciably will also be affected by the performance of other industrial sectors. The plan to use more metal wastes and fly ash instead of rock products, for example, may be hampered by continued slow growth in the metals and coal industries and by transportation constraints. If fuel and power supplies cannot be made more reliable, production of construction materials will continue to falter.

In sum, unless investment in the industry is increased substantially to develop new sources of raw materials, commission new production capacity, renovate old plants, and increase output of processing equipment, continuing construction materials shortfalls will seriously hamper Gorbachev's modernization and consumer welfare efforts. Specifically, new housing starts will slow and capital renovation will suffer due to delays in the production of advanced and higher quality construction materials.

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Soviet Oil Production and Exports: Prospects for 1986

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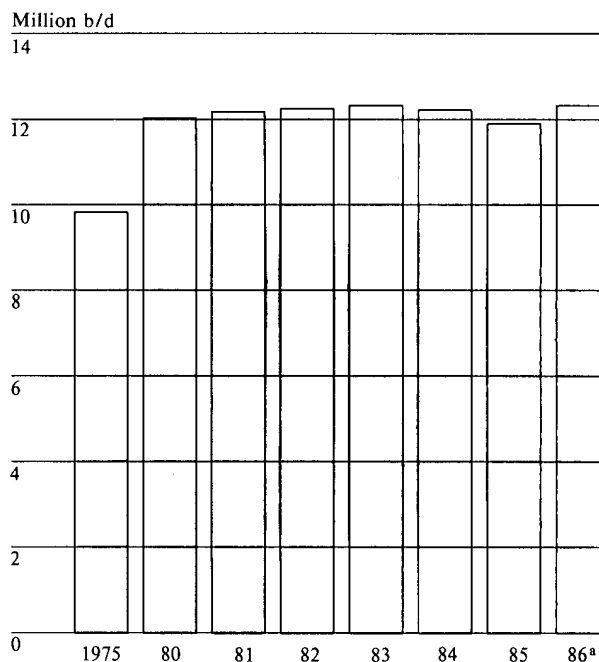
Soviet oil production in 1985 fell—for the second consecutive year—to about 11.9 million b/d, more than 300,000 b/d below the 1984 level. Hard currency receipts from oil exports dropped about \$3.5 billion—down roughly 25 percent. The Soviet plan for 1986 calls for raising oil production to more than 12.3 million b/d, but the production outlook is precarious, particularly for the key Tyumen' region, which accounts for 60 percent of oil output. On the basis of the oil industry's recent record of rising investment and falling output, together with extensive discussion in the Soviet press of a widespread lack of equipment, skilled manpower, and effective management in the industry, we conclude that:

- Even with the planned boost in investment for the oil industry, production is unlikely to rise above the 1985 level.
- Depending on the degree of slippage in the supply of resources to the oil industry, national output could fall another 300,000 b/d.
- Despite conservation and substitution efforts, domestic oil consumption is likely to remain at 1985 levels.
- Oil exports to hard currency countries will probably again bear the brunt of any production shortfalls. At the extreme, export reductions, compounded by anticipated oil price declines, could cost Moscow as much as \$4-6 billion in hard currency earnings.

Trouble in the Tyumen' Region

Development of Tyumen's largest and best oilfields began more than 20 years ago, and the era of "easy oil" has certainly come to an end. Further attempts to increase—or even sustain—production will be obstructed by several factors:

USSR: Oil Production, 1975-86

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- Production is overly dependent on output from eight to 10 large but overworked oilfields that were developed during 1964-73. Production from most of them has peaked, and output will probably continue to fall in 1986.
- There is little likelihood for the imminent discovery of a new supergiant oilfield. New capacity will have to come from developing a much larger number of

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remote fields that are smaller, structurally more complicated, and far less productive than the oilfields developed during the 1970s. According to *Pravda*, however, the Soviets planned to commission 26 oilfields during 1981-85, but only 13 are producing. We judge that the plan to bring 18 new oilfields on line in 1986 is no more likely to be met.

- Average flow from new wells has been steadily declining—from 1,250 b/d in 1975 and 490 b/d in 1980 to about 220 b/d in 1985.
- Because of excessive water injection, the share of water produced with oil in Tyumen' has risen from 14 percent in 1975 to more than 50 percent in 1985, sharply escalating the demand for reliable pumping equipment and also increasing the production costs. Currently, pumps are used on more than 70 percent of the producing wells in the region, compared with about 20 percent in 1980.
- The Soviet press reports that production and support infrastructure in the Tyumen' oil region is four to five years behind the level needed to support planned production. Moreover, much of this equipment has been ravaged by corrosion. []

In 1985 Moscow stimulated Tyumen' production by transferring substantial equipment and labor resources to this region from the older producing regions. Sustaining output in 1986 would require an additional increase in allocation of similar resources to Tyumen'. Further transfers, however, could result in accelerated loss of output in the older regions that could—because flow rates from new Tyumen' wells can no longer be assumed to be greater than those in some of the older regions—cause national output to decline. []

Prospects for Production

We judge that General Secretary Gorbachev is not altering the thrust of oil policy and continues to favor production growth despite the high cost and the negative consequences for needed exploration. In reaction to the two-year decline in production, Moscow plans to raise oil output by more than 3 percent and increase oil investment by 31 percent in 1986. We do not believe that the measures outlined in Gorbachev's

Tyumen' speech in September—increased application of science and technology, better equipment, a sharp increase in housing construction, and the availability of amenities—are capable of increasing production in 1986. Although pressure from Gorbachev—most notably the firings of high-level oil industry personnel for poor performance—may lead to stepped-up production from older fields in the short run, such gains will be insufficient to push national output above the 1985 level and will be extremely difficult and costly to sustain for more than a year at best.¹ []

Moscow plans to allocate over 14 billion rubles to oil industry investment in 1986, most of which will be used in Tyumen'. Much of this investment, however, will be absorbed by sharply rising costs associated with providing sufficient capacity just to offset depletion. Several factors have contributed to this situation:

- In the past, the Soviets were able to compensate for the downward trend in average well flows by more intensive drilling of established fields. According to the Soviet press, this option may no longer be available, and an increasing number of new fields must be tapped in areas remote from infrastructure.
- Local oil officials complain that the costs for developing the smaller and more remote fields are escalating but that investment funds are allocated on the basis of the lower costs previously experienced in developing fields in more favorable locations—essentially dooming new output plans.
- On the average, 20 percent of the production wells in Tyumen' stand idle.
- The leadtime for new equipment orders means that delivery and timely installation in Tyumen' will not be possible much before next winter, when the ground is frozen hard and winter roads can be built.

¹ The new regime, in addition to replacing the Soviet oil minister, removed key personnel in Tyumen'. Moreover, two production associations that run oil operations in the European USSR were given control over three West Siberian production directorates in an unprecedented move to improve efficiency. []

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The new fields are located generally to the north of existing oil operations in areas entirely lacking infrastructure. []

Other Producing Regions

In aggregate, the oil and gas condensate output from the other producing regions has been declining since 1975 and is likely to fall again in 1986, although the drop may not be as large as in previous years. Newly developed oilfields on the Buzachi Peninsula in Kazakhstan and in the Caspian Basin (onshore and offshore), together with new condensate output from Karachaganak, Astrakhan', Shurtan, and Dauletabad, will help to offset declining output from the old regions west of the Urals. Production from the Volga-Urals area—the USSR's second-largest producing region—has experienced annual declines averaging about 200,000 b/d since 1978. []

Can Oil Consumption Be Reduced?

We believe that domestic oil consumption—which grew rapidly during the 1970s—has essentially stabilized. Of the major oil products—gasoline, kerosene/jet fuel, diesel fuel, lubricants, and fuel oil—we judge that the only oil product for which there exists a substantial opportunity for reduced consumption (because of either improvements in efficiency or substitution) is fuel oil.² Nonetheless, during 1981-85 Moscow did not decrease the volume of fuel oil consumed by thermal power plants—a main goal of the oil conservation effort. Our analysis indicates that the volume of fuel oil consumed by power plants remained at nearly the same level in 1985 as in 1980—about 2.5 million b/d, 28 percent of total apparent oil consumption. Despite successes in substituting natural gas for fuel oil at many power plants, fuel oil consumption by coal-fired power plants increased during 1981-85 because of low-quality coal and coal shortages, thus offsetting the potential savings in the oil-to-gas conversion program. []

The Chairman of the State Committee for Oil Products has indicated that, despite efforts to economize

² In 1986, the USSR plans to save about 25,000 b/d of gasoline—about 2 percent of current gasoline production—by using liquefied compressed gas to power about 100,000 automobiles. Increased demand for gasoline as a result of new automobile production—about 1.3 million vehicles annually—will easily offset this saving. []

on the use of fuels and lubricants, during the first nine months of 1985, automobile transport exceeded its planned allocation by more than 46,700 b/d of gasoline and 8,500 b/d of diesel fuel. []

We believe that oil consumption will remain essentially flat in 1986 because:

- The demand for oil products—such as gasoline and diesel fuel—in the transportation and agriculture sectors will probably grow.
- There is little opportunity to reduce oil consumption in the residential sector.
- The requirements for nonfuel oil products—such as lubricants and plastics—will probably remain constant.
- Fuel oil consumption in the electric power industry—which accounts for about 70 percent of total fuel oil consumption—will probably decline only marginally in 1986 because of continuing problems with low-quality coal and coal shortages. []

Implications for Exports

If Moscow can stem the decline in production, the Soviets will at best be able to maintain total oil exports this year at the 1985 level—an amount we estimated to be 10 percent below the 1984 level. In the event output falls by as much as 300,000 b/d in 1986, Moscow could be forced to reduce exports an additional 10 percent. []

Moscow opted to absorb most of the 1985 production decline through reductions in oil exports to the West—at a cost in earnings of \$3.5 billion—while sustaining deliveries to its Communist partners. Maintaining 1986 oil exports to the developed West at last year's level—depressed by about 25 percent from 1984 levels—will continue to cost the Soviets much-needed hard currency—the more so if world oil prices drop further. Earnings from gas exports are scheduled to increase substantially by 1990 but will fall short of compensating Moscow for the expected decline in oil export revenues. []

Tough Options

Nonetheless, we believe that exports to the developed West would probably, at least initially, bear the brunt of further reductions in oil production, costing the Soviets almost \$700 million for every 100,000-b/d decrease (at \$20 per barrel). But the Soviets may still need to make some tough additional choices on how to allocate available exports in 1986. The East European countries, heavily dependent on Soviet oil, are already suffering from shortages. A cut in oil deliveries would cause them major economic difficulties at a time when they are under pressure to export more finished products to the USSR. Moreover, Moscow would have to weigh carefully the attendant risks of economic instability and increased political tensions that could result from a reduction in oil deliveries to these nations. []

Political considerations will also make it difficult to cut deliveries to Cuba, Nicaragua, and Moscow's other Third World client states, which account for about 10 percent of Soviet oil exports. Even in the case of Nicaragua, where, []

[] the Soviets have pledged to supply oil in 1986 at only 60 percent of last year's level, the Soviets will probably supply additional supplies—especially if oil shortages threaten Sandinista military operations. []

Oil deliveries to other Third World countries represent 6 percent of Soviet oil exports, providing the Soviets with another area where deliveries could be reduced. India receives the majority of this amount. Moscow, however, has shown concern for the political and strategic aspects of its relationship with India and would probably be reluctant to make a reduction there. []

Impact on Hard Currency Earnings

At the extreme, export reductions, compounded by anticipated oil price declines, could cost Moscow as much as \$4-6 billion in earnings, presenting Moscow with onerous choices between rapidly expanding its debt and reducing hard currency imports. Last year's fall in revenues was the major contributor to Moscow's deteriorating financial position. To offset earnings reductions, the Soviets stepped up borrowing dramatically and postponed some planned purchases.

[] approval of the 1986 purchasing program has been delayed, in part, because of hard currency shortages. Recent personnel changes in the Foreign Trade Ministry and Gosplan could also be delaying the required approval. []

While Moscow could partially compensate for reduced earnings through further borrowing and larger gold sales, major additional import cuts may also be in the cards, especially if Moscow cannot arrest the decline in oil production and if the fall in export earnings becomes particularly sharp:

- Additional gold sales of \$2-3 billion are possible, but any further sales would seriously affect gold prices—a reaction that the Soviets generally try to avoid.
 - Traditional financial conservatism would probably put a brake on continued Soviet borrowings.
- Anticipated drops in Soviet grain imports in 1986 may give Soviet planners some flexibility to avoid serious cuts in machinery and equipment imports. In fact, large equipment orders last year could mean some increase in imports for major development projects. However, major adjustments to imports in 1987 would almost certainly be necessary to prevent a sharp increase in Soviet debt service ratio in light of declines in oil export earnings and recent borrowing activity. []

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